PLANNING
FOR THE
SOUTH

An Inquiry into the Economics of Regionalism

By
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TABLE OF CONTENTS

	Foreword	i
I.	Liberal Planning	1
II.	The Southern Region: Its Natural Resources	38
III.	The Southern Region: Population Trends	53
IV.	Proposed Goals for the Southern Region	76
V.	Land Use Planning	105
VI.	Land Taxes and Tenancy	119
VII.	Social Security and the Southern Region	144
VIII.	Federal Obstructions	167
IX.	Federal Aid	204
X.	Financing Federal Aid	229

FOREWORD

WHY are economic rewards so much lower in the South than in other parts of the country? This question was drawn forcibly to the attention of the nation by the *Report on Economic Conditions of the South* in which President Roosevelt, in a foreword, characterized the area as "the Nation's No. 1 economic problem." [1]

The present volume, which attempts to answer this question, is a plea for regionalism by "a man without a region." My residence in the South dates from September, 1938. With the exception of the first eight years of my life in Colorado and the next eleven in Baltimore, I have never spent more than five years in any one place; more than ten years were spent in various parts of Europe. My regionalism is thus intellectual rather than emotional. Nor is it the result of any sudden conversion. Are there any students who were privileged to sit under Frederic Jackson Turner who are not regionalists? His lectures made a deep impression on me in my graduate school days. His doctrines appear to me to have gained in validity throughout the years. I have more and more come to see our own Federal Union as a magnificent and continuing experiment in the art of harmonizing profound and desirable economic and cultural diversities, regional in character. The regions of the United States, as Turner pointed out, are potential nations. In a sense, therefore, this is a study in international relations.

It is not primarily the phenomenon of existing regional inequality that needs explaining, but rather its persistence over generations. This persistence is not something to be taken for granted. It is something which one would expect to be temporary because the

1. Issued by the National Emergency Council. (Washington, 1938.)

area of low incomes is set in a national economy in which there is probably a closer approximation to the assumptions underlying the *laissez-faire* prescription for social policy than is to be found anywhere else in the world. Free trade prevails throughout the national area. Men are free to move from one part of the country to another in search of opportunity, retaining always their national citizenship and guaranteed by the Constitution their rights of local citizenship wherever they choose to settle. There are no serious religious or language barriers. Publicly supported education up through the university is available in every state in the Union. There are no legal barriers to capital movements and no serious differences in the kind and degree of legal protection accorded to property rights in the several states. In brief, general reasoning would lead one to predict that in this environment there could be no large persistent differences in the rewards going to labor and capital in different parts of the country. One would expect that the tendency of labor to move toward high wage areas, and of capital to flow toward high interest areas, would have ironed out any large geographical differentials that may have existed in the past.

Yet in fact these levelling forces, while they have undoubtedly been operating, have very evidently been inadequate. What is the explanation for this lack of success? To what extent is it due to faulty social controls at the local and national levels? What changes in controls within the limits imposed by federalism and democracy might reduce these differentials? The last question foreshadows the conservative point of view of the writer. The solution will be sought within the framework of private capitalism operating in a federal democracy. It rejects quick, authoritarian remedies, despite the fact that an all-powerful dictator might quite possibly reshape the American economy to the great advantage of all of us—if we could be sure of finding the right dictator. This possibility accounts for the perennial appeal of totalitarian solutions. Capital "R" Reformers are so convinced of the purity of their motives, and so eager to see their dreams of a better world come true in their own lifetimes, that they forget that attention to ways and means

is as important as attention to goals. Processes and goals cannot be disentangled.

This rejection of complete (totalitarian) and authoritarian remedies does not mean that we shall argue for a return to *laissez-faire* as the solution of the difficulties confronting the South. True, *laissez-faire,* which has never been consistently practiced, might conceivably prove superior to the present system of contradictory controls. To urge the *laissez-faire* solution would, however, be as futile as it would be cruel. Its harshnesses preclude its use as a practical method of reform. Too many would be hurt. In a democracy—and we are seeking for a democratic solution—these sufferers would appeal to and secure the aid of the state. The necessity and the desirability of some over-all planning is accepted.

Our first task will be to identify the planning measures which the government of a democratic state, desirous of remedying Southern conditions, may properly invoke without imperilling the liberties of its people or the cultural autonomy of its parts. We shall use interchangeably the fine old term Liberalism and the more modern term Liberal Planning when referring to the ensemble of public measures which we regard as consistent with democratic institutions. In any event individualism and the democratic tradition are too deeply rooted in the folkways of Southern whites to permit of anything but a relatively individualistic solution of its problems. Nothing could so endanger the unity of this vast country of ours as the imposition upon the South of totalitarian controls, however well intended.

After identifying the control measures which seem appropriate for the task in hand, we shall survey the South's natural and human resources, and identify certain attitudes which combine to make this part of the United States a distinctive region. Obviously any lasting improvement in living conditions in the region will depend upon improvements in resource utilization. We shall pass in review various proposals for making a better South and indicate the one which appears most worthy of being called liberal, and hence most deserving of public support. Having fixed upon a goal for the

South we shall first examine control measures over which the Southern people have substantial control, and then analyze a number of measures falling within the competence of the Federal Government. In the last two chapters a case for differential Federal aid to the South will be submitted, together with a formula that would preserve the vitality of local institutions, and suggestions for changes in the Federal and state fiscal systems which would promote the successful execution of the entire program.

The study is primarily concerned with the developments of the inter-war period. No attempt has been made to appraise the social controls introduced after our entry into the war. The impact of the war upon the South is worthy of separate study. The present enquiry deals with the problems of peaceful change. The justification for submitting it now is that the analysis may prove useful in planning for the post-war South.

I take this occasion to express my appreciation of the assistance provided by the Institute of Research and Training in the Social Sciences of Vanderbilt University. Professor J. R. Whitaker of the George Peabody College for Teachers read much of the manuscript and made a number of valuable suggestions. Professors H. C. Nixon and F. L. Owsley read certain sections and gave me the benefit of their intimate knowledge of Southern conditions.

Chapter I

PLANNING

MOST of us experience a vague uneasiness when anyone suggests the need for more planning in our national life. Yet laying schemes for the morrow goes on all the time, and must go on. The triumphs of mass production depend upon meticulous timing in the flow of raw materials and parts to their points on the final assembly line. A satisfactory house cannot be built without some advance planning. Each of us must schedule his day if it is not to be wasted. To avoid frustration, an individual must plan his life. Organized groups, from a country club or lodge to a national state, are held together by common purposes and common planning. In brief, planning is inevitable, for individuals, groups, communities, on up to the state itself. Eventually we must come to orderly international planning if the constructive elements in science and in human nature are to triumph over the destructive.

Mercantilistic Planning

State planning is nothing new. Feudal society rested on a clear-cut plan in which custom, secular and clerical power all combined to preserve order and security with a minimum of change. By contrast the Mercantilistic planning of the next period was dynamic. Its aim was to increase to the greatest possible extent the independence and the power of the state. To the mercantilist the test of success was the existence of a "favorable" balance of trade and hence an inflow of the precious metals. Accordingly exports were encouraged in diverse ways and imports were discouraged except where they served as the basis for the export trades.

Of course this scheme of statecraft involves national economic planning of an elaborate, continuous sort, calling for eternal vigilance on the part of statesmen and tending to develop into detailed regimentation of economic life. The occupation a youth may choose, the apprenticeship he must undergo, the wages he may receive, the places in which he may live and work, the commodities he may consume, the products which his master may make, the technical processes to be followed, the standards of materials and workmanship to be observed—these are but samples of the matters which mercantilism sought to control in its heyday.[1]

Needless to say these minute regulations were not easy to enforce. Smuggling and other forms of evasion were widespread and frequently tolerated. Under the facade of control a considerable degree of private initiative existed. At times, however, the authorities enforced the rules with relentless severity. In connection with regulations governing the production of calicoes in France, for example, some 16,000 people lost their lives,

partly through executions and partly through armed affrays, without reckoning the unknown but certainly much larger number of people who were sent to the galleys, or punished in other ways. On one occasion in Valence, seventy-seven were sentenced to be hanged, fifty-eight were to be broken on the wheel, six hundred thirty-one were sent to the galleys, one was set free and none was pardoned. But even this vigorous action did not help to attain the desired end. Printed calicoes spread more and more widely among all classes of the population, in France as everywhere else.[2]

Yet Mercantilism represented an advance over Feudalism in several respects. It broke down the petty internal barriers to trade. Through the construction of military roads and canals, it broadened enormously the internal market. In certain lines of industry the size of the productive unit expanded to meet a wider consumer demand. Expansion favored minuter division of labor, and this, in turn, facilitated the substitution of machines for the craftsman's tools. This development naturally complicated the task of control.

Fortunately Mercantilism was not totalitarian in the modern sense of the word. It developed in the Age of Enlightenment. While economic life was shackled and directed, men were at least free to

1. Wesley C. Mitchell, "The Social Sciences and National Planning," in *Science*. Vol. 81 (1935) p. 55.
2. Walter Lippmann, *An Inquiry into the Principles of the Good Society* (Boston, 1937), pp. 9-11. Lippmann's account is based upon Professor Eli F. Heckscher's *Mercantilism*.

speculate on the nature of the universe and the wisdom of state policy. Scientific speculation of this period led to the discovery of ways and means to harness the forces of nature to the new machines that were beginning to appear. Social speculation led men to debate the advantages of the growing division of labor and to criticize the increasingly inept efforts at control. This critique of Mercantilism has come to be known in the history of thought as *laissez-faire.*

Laissez-Faire as a Planning Device

The *laissez-faire* argument was very simple: The task of satisfying the varied material needs of the people is divided primarily between men as producers and men organized in the compulsory association known as the state. Producers work for the people as consumers; the state works for them as citizens. As consumers the people determine what shall be produced; as citizens they determine what the state shall do.

The people as consumers, according to *laissez-faire* theory, dictate what shall be produced and to a large extent how much the producers shall be paid for their services. This comes about through the operation of the "immutable laws of supply and demand." Other phrases meaning much the same thing are "the market" and "the price system." Production, according to this school of thought, is carried on by the application of labor to land and other natural resources, and with the assistance of tools which range all the way from the primitive hoe to the most complicated machines and the most modern and costly factories. Thousands of *specialists* cooperate in the long and complicated processes of production. Each, according to *laissez-faire,* will be rewarded according to what he contributes to the productive process. The laborers receive *wages,* the owners of land and natural resources, *rent,* those who save part of their current income and place it at the disposal of others to be converted into tools and other forms of *capital,* receive *interest.* Those who assume the risks involved in combining land, labor and capital in order to fashion tools and consumers' goods and who

agree to pay to the others stipulated amounts as wages, interest and rent, are entitled to anything that is left over after the products are sold. This share is known as *profits,* and the men who do the combining and assume the risks are known as *enterprisers.* Land, labor, capital, and business ability, when combined with risk taking, are called the *factors of production.*

Wages, plus rent, plus interest, plus profits equal total production. But how is the share going to each of the factors determined? The *laissez-faire* answer is "supply and demand," the "price system." Men produce what they think the consumers want. But the consumers pay according to the usefulness of the products to themselves, and the amount available. The value of a product depends upon its usefulness and its scarcity. In money terms this value is spoken of as a price. The price of a product measures its power to command other products in exchange.

If consumers want more of a particular thing, shoes for example, the price goes up. The enterprisers who are already making shoes make larger profits. These larger profits lead them to offer more in wages, interest and rent in order to get hold of more of the factors of production. When consumers spend more on shoes they have less to spend on other things. If the increased demand for shoes is at the expense of shirts, then the price of shirts falls. This leads to a fall in profits, in employment and in wages in shirtmaking. Meantime the higher wages, interest, etc., being offered by the enterprisers who are trying to expand shoe production, lead to a shifting of labor and captial and land into the making of shoes and all the materials that go into shoes. The enterprisers who were already making shoes might prefer to keep their profits large by not expanding production, but in that event other enterprisers, perhaps those driven out of shirtmaking, will enter the field and bring down the price of shoes. As the production of shirts declines, shirt prices begin to rise and as the supply of shoes increases the prices of shoes begin to fall. For a period extra profits are made in the shoe industry and losses are experienced in the shirt industry. Finally a new equilibrium is reached in which more of the factors

of production are devoted to the making of shoes and less to the making of shirts, and the rewards to the factors in the two fields return to equality.

This highly simplified illustration brings out the beautiful simplicity of the *laissez-faire* answer to an important question: How shall the general welfare be determined? The reply is: Just leave the consumer free to choose what he wants and the price system will do the rest. Through the rise and fall of prices men will be induced to shift themselves, their savings, and their lands from the making of things which consumers want less to the making of things which they want more. Self-interest leads men as producers to do those things which people as consumers want done. Guided and urged on by the profit motive, men will work with intelligence and enthusiasm. Output will be enormous and consumers and producers, who are after all the same people looked at in two different ways, will prosper, and the state, which again is but these same two groups looked at from another point of view, will grow strong and prosperous. Guided as by "an invisible hand," to quote Adam Smith's famous phrase, the driving force of selfishness, the desire to look out for oneself and one's family is transformed into a great public service. Even the lust for power is transmuted by the alchemy of the price system into social abundance.

The political theory of *laissez-faire* grows logically out of the above economic theory. It may be regarded as a simple corollary. The state, in a *laissez-faire* regime, has a few and very simple tasks to perform. It must protect this free society from enemies from without and maintain law and order within. No need of a great bureaucratic apparatus—just an army, a navy, an internal police force to preserve domestic peace, protect private property and prevent fraud—and all will be well. Adam Smith recognizes a third important duty of the state to which reference will be made later.

The Results of Laissez-Faire

The practical repercussions of this doctrine were enormous. Step by step nations demobilized their vast control bureaucracies. By

1860 it looked as though free trade between nations might become an early reality. Especially in England and in the young and exuberant frontier America, faith in individual initiative and freedom to venture sank deep into the national consciousness. A new consensus was in the making. Men dreamed of abundance and peace. To its devotees *laissez-faire* was a universal solvent—capable of harmonizing the interests of labor and capital, consumer and producer, nation and nation.

Despite undeniable gains in material well-being there was much that was ugly behind the facade of *laissez-faire*: great wealth alongside of abject poverty, palaces and slums, brutal colonial exploitation of primitive peoples, and periodically a breakdown of the productive processes. *Laissez-faire* appeared to have loosed upon the world a type of virulent and contagious undulant fever known as the trade or business cycle which threw tens of thousands of hungry workers on the streets and left farmers bankrupt amidst their surpluses.

The advocates of *laissez-faire* saw these evils but they could find no remedy for them within their philosophy. They were not hard-hearted; on the contrary, the implications of their theory of value and distribution pointed strongly toward equality as a goal. The excesses of the masses during the French Revolution, however, had sobered them and Malthus, the British clergyman, had provided a comforting justification for the suffering which they deplored.[3] The main reason for the distressing poverty of the masses, he explained, was that they had too many children. Any collective attempt to improve their conditions was foredoomed to failure. The gain would be short lived. More of the children of the poor would survive and in the end the sheer pressure of their numbers would force wages to still lower levels. Or else the well-to-do would be obliged to contribute more and more of their wealth to the maintenance of the poor until finally all would be brought down to the poverty level. Then they would turn on one another in a desperate struggle for survival. The problem of poverty, in their eyes, was an

3. Gunner Myrdal, *Population. A Problem for Democracy* (Cambridge, 1940), pp. 12-17.

individual problem. The poor could rise from this poverty level providing they were prepared to restrict their numbers. With smaller families they could give their children the benefits of education, adequate diet and physical care which would enable them in turn to climb to a still higher level. Every normal young couple had in their hands the key to success, not perhaps for themselves but certainly for their children and their children's children.

This was a comforting doctrine for the well-to-do. They were well-to-do because they were hard working, thrifty and ambitious for their children. Poverty was regrettable but there was no reason for denying oneself the comforts and conveniences of life in order that the poor might have meat. Perhaps the poor should not be allowed to die of hunger, because, of course, they were very numerous and they might revolt. But public assistance should be meager and given only as a last resort.

In the face of this paralysis of the hearts and imaginations of the defenders of *laissez-faire* capitalism, the advocates of a return to authoritarian planning have had an easy time.

The Marxian Indictment

One of the most influential of the schools of thought hostile to *laissez-faire* found the root cause of poverty in the institution of private property. The argument ran as follows: Property confers power. The man of property can drive a hard bargain with the man who has nothing but two strong arms and an empty stomach. The property owner, or capitalist, taking advantage of the worker's necessity, can extract more than his own share of the joint product of their labor and capital. He waxes rich while the worker can never hope to get more than enough to keep body and soul together. The initial inequality exercises a cumulative influence because of the institution of inheritance which permits the capitalist to hand on to his children his ill gotten gains. Thus the children of the rich start with a tremendous advantage in the competitive struggle. They have the health and education and connections which permit them to monopolize the positions which require skills and knowledge. These

talents are equally present in the poor, but only in very exceptional cases can they come to light. Hence they are forced to compete for the unskilled jobs. The "immutable law of supply and demand" operates against them and in favor of the propertied classes. The system of private capitalism inevitably makes the rich richer and the poor poorer. But more than this the system leads the very rich to turn on the less rich. The end result is a society with a handful of enormously wealthy families and a vast legion of poor people living from hand to mouth, haunted day in and day out by fear of what tomorrow may bring.

This is the Marxian reply to the *laissez-faire* diagnosis. Its author, Karl Marx, a German publicist and labor leader, worked out his reply while living in exile in London. It is embodied in a massive tome, "Das Kapital," which has become the Bible of Socialism. Its influence was and is enormous. In a way it is surprising that its labored and subtle arguments—quite beyond the comprehension of the vast majority of devoted Marxians—should have prevailed over the simple arguments of *The Wealth of Nations*—a book which can be read and understood by millions.

The reason, of course, lies in the nature of the conclusions. *The Wealth of Nations* appealed to the rational in man; it held forth no promise of an early Utopia—only the hope that the world would be a better place to live in if men were free to work out their own destinies. The road ahead was long and rough. To attain the goal men would have to possess all the virtues that a Scotch philosopher would naturally value highly—sobriety, thrift, persistence, self-denial, and self-reliance.

The goal depicted by Marx, on the other hand, was an "inevitable" outcome of the law of capitalistic evolution under which the rich grew richer and fewer, while the poor grew poorer and more numerous. Finally would come the day when the vast army of the poor would strike off their chains, expropriate the expropriators, and take possession of the capitalistic apparatus of production. The system of private property would be abolished. The state would succeed to the title and the working class or the proletariat would control

the state. Government officials would direct production not for profit but for the satisfaction of human needs. Production would reach heights as yet undreamed of. There would be abundance for all. Social classes based on wealth, education, and privilege would pass into the limbo of forgotten things.

To quote Leon Trotsky:

> In a society which will have thrown off the pinching and stultifying worry about daily bread, in which community restaurants will prepare good wholesome and tasteful food for all to choose, in which communal laundries will wash clean everyone's linen, in which children, all the children, will be well fed and strong and gay, and in which they will absorb the fundamental elements of science and art as they absorb albumen and air and the warmth of the sun, in a society in which electricity and the radio will not be the crafts they are today, but will come from inexhaustible sources of superpower at the call of a central button, in which there will be no "useless mouths," in which the liberated egotism of man—a mighty force!—will be directed wholly towards the understanding, the transformation and betterment of the universe—in such a society the dynamic development of culture will be incomparable with anything that went on in the past.[4]

Here indeed was an exicting and a noble picture of the society of the future. How sordid, by contrast, the capitalistic society of the mid-nineteenth century. No wonder that workingmen rallied to this standard by the millions and that tens of thousands of intellectuals became its spokesmen.

Marx and his contemporaries believed that the Revolution was imminent. Capitalism bore within itself the seeds of its own destruction. He called upon his followers to have no truck with the capitalistic state. Social reform was but a device to keep the workers enslaved. The more resolutely *laissez-faire* the capitalistic state, the better, because it hastened the day. When it dawned a brief and violent revolution would usher in the millennium in which all men would be free from want and free from external authority. The State itself would eventually disappear.

Unfortunately for Marx's reputation as a prophet, events did not develop according to the inevitable law of capitalistic evolution. The rich, it is true, grew richer, as the Industrial Revolution continued its

4. From *Literature and Revolution* as quoted by Max Eastman, *Stalin's Russia and the Crisis in Socialism* (New York, 1940), p. 127.

triumphant course, but they did not grow fewer. The Big Dog did not eat up the Little Dog, and the latter, despite the smallness of his stake, showed a stubborn loyalty to the regime that protected him in his modest rights. There were still plenty of poor people, but on the whole their condition appeared to be slowly improving.

In the face of these facts the younger generation of Marxians changed their tactics. They no longer spoke of an imminent Revolution. It was still inevitable, but it would come gradually, and in the meantime the faithful should cooperate with the more socially minded of the propertied classes in improving the lot of the working classes. The true doctrine should be taught as energetically as ever. Time enough to inaugurate Socialism when a majority had been won over to its support. Thus the modern Socialist accepts the "democratic process"; he is prepared to work through the arts of persuasion.

In our own day Fascism and National Socialism have risen as contenders for the loyalty of the disillusioned. Their appeal is to order, system, and discipline. Unlike Communism and Socialism they would leave untouched the legal titles to property. They would take away, however, the control over private property, which is one of the foundation stones of *laissez-faire*. Only the shell is left. Despite marked ideological differences, the internal policies of fascism and communism show striking similarities. Both scrap the price system—both substitute bureaucratic decisions, enforced by the full power of the state, for the spontaneous decisions of innumerable enterprisers, large and small. Yet many men of property, thoroughly democratic at heart, when faced with the choice between a regime that would destroy their property rights completely and one which would reduce them to *rentiers* and salaried servants of the state, have thrown in their lot with *fascism*. Unless those who believe in the supremacy of the individual can be convinced that there is a middle way—one capable of providing a reasonably secure and a reasonably adequate living standard for the broad masses and at the same time capable of protecting private property—we may

look to see them range themselves with one or the other of the two extreme authoritarian ideologies.

Total Planning

Some reasons for the strong appeal which total planning undeniably possesses have already been mentioned. An additional appeal is the apparent promptness of totalitarian solutions in contrast with the harsh and slow adjustments of *laissez-faire.* Nonetheless we shall not invoke totalitarian measures in our search for a plan for the South, not only because we believe there as a better alternative, as we shall attempt to show presently, but also because of three serious defects which appear to be inherent in total planning:—excessive regimentation incompatible with human freedom; excessive waste incompatible with a satisfactory material level of living; and finally an excessive economic nationalism which can only lead to war. These pessimistic conclusions rest upon the proposition that human freedom depends upon preserving to consumers the task of guiding production and to producers the right to choose their jobs; and that in a planned society consumer direction and freedom of occupational choice cannot both be realized.

In fairness to the reader it should be pointed out that so penetrating and able an economist as the late Professor F. M. Taylor, of the University of Michigan, held that production in a socialist state could be guided by the wishes of the consumers.[5] The correct procedure, he argued, would be for the state (1) "to assure to the citizen a given money income" and (2) to "authorize the citizen to spend that income as he chose in buying commodities produced by the state—a procedure which would virtually authorize the citizen to dictate just what commodities the economic authorities of the state should produce." The state would "maintain exchange relations with its citizens, buying their productive services with money and selling to them the commodities which it produces."

Professor Taylor's argument is contained in the address which he

5. "The Guidance of Production in a Socialist State," in the *American Economic Review,* vol. XIX (1929), pp. 1-8.

delivered as President of the American Economics Association. It was an exercise in pure theory. Since then the pure theory of socialist planning has been still further developed.[6] As a theoretical proposition, the possibility of preserving consumer freedom of choice, and hence consumer direction of production, which is the very backbone of *laissez-faire* theory, may be conceded. But this freedom is not enough to insure the other great freedoms. It still remains to be shown that the system can preserve freedom of occupational choice without which the political freedoms seem inconceivable.

It is at this point that most of the simplified models break down. Taylor, for example, would place a valuation on productive factors for planning and price fixing purposes, according to their "effective importance," that is according to their marginal productiveness. Yet laborers, the possessors of the great human factor, would receive only such part of total income as was conceived to be in the interest "of the group as an organic whole." This vague formula points toward equality of money incomes.

If these withheld shares were all made available to alleviate the lot of the low income group, by services in kind, for example, the

6. See Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism* (Minneapolis, 1938) and H. D. Dickinson, *Economics of Socialism* (Oxford University Press, 1939). These books contain excellent bibliographies. The most recent and most important contribution to the literature is Professor Joseph A. Schumpeter's *Capitalism, Socialism and Democracy* (New York, 1942), which came to my attention as the manuscript was about to go to the printer. Professor Schumpeter believes that socialism is the heir apparent to capitalism. The latter's abdication is not because of its inability to provide every increasing abundance to the broad masses—"capitalism is being killed by its achievements"—but because of the progressive loss of popular faith in its beneficence. This change in attitudes has led the democracies to throw such obstacles in its path that socialism may come to represent an improvement upon a "fettered capitalism." The rational socialism which Professor Schumpeter develops as a theoretical possibility will certainly not satisfy egalitarian socialists, apparently does not inspire him with any great enthusiasm, and involves greater restrictions of individual freedom than most Americans are yet prepared to accept. Schumpeter has little to say regarding the possibility of reconciling the conflicting interests of socialist communities, even assuming that they all adopted his moderate and rational schema and this difficulty seems to me to be of fundamental importance. This aspect of the problem is developed in the text. Lionel Robbin's *Economic Planning and International Order* (London, 1937), contains an excellently reasoned statement of the difficulties. Ludwig von Mises' *Gemeinwirtschaft* (Vienna, 1922), which appeared in English under the title *Socialism: An Economic and Sociological Analysis* is still the best statement of the case against the possibility of rational economic calculation under socialism. The literature cited above constitutes the rebuttal.

community's productive equipment would rapidly deteriorate. If, on the contrary, plans were made for any substantial capital expansion little would be available for distribution to those of low effective importance. Labor, it must be remembered, is not a homogeneous, undifferentiated factor. It is made up of thousands of specialized groups between which little interchange is possible over short run periods. Rare skills of technical, entrepreneurial and artistic sorts exist side by side with more prosaic and abundant capacities. How is the Planning Authority to discover these rare skills, and how is it to induce their possessors to use them for the welfare of the group?

One difficulty is that the possessor of a rare skill may not even know he possesses it. In that event the Planning Authority is not likely to discover it. Hardly less serious is the fact that the possessor of such a skill may not care to disclose it if the reward assigned to him is independent of his job of work. He may prefer to pursue an activity for which he possesses no peculiar qualifications but which he finds more satisfying. A relatively slight reduction in production could easily offset the gain to low income groups arising from a more equal distribution of the national income.

It seems unlikely that the Planning Authority could dispense with differences in economic rewards as a means of ferreting out the varied capacities of the millions of producers under its jurisdiction. If it insisted upon keeping money rewards reasonably uniform, it would have to offer privileges in the way of shorter hours, greater prestige, and other attributes of office, such, for example, as automobiles, official residences, entertainment allowances, etc. Inequality would thus creep back into the system. This appears to have been the experience in Russia. After drastic and unsuccessful efforts to commandeer talents, communism was obliged to reintroduce substantial economic differentials.[7]

The state may, of course, eventually confiscate these surpluses despite the apparent assurances given their possessors that they may enjoy them free of income and inheritance taxes. But obviously no

7. *Stalin's Russia and the Crisis in Socialism* (New York, 1940), pp. 36-51.

orderly society can be built upon repeated repudiations. Once men understood that high rewards were to be limited to a single lifetime,[8] their responses would be only half-hearted. To the extent that they rose to the bait at all it seems probable that one of two things would happen: either they would spend as they earned or they would seek to retire when they felt that they had made reasonable provision for their old age. The first alternative would lead to a more flagrant type of "conspicuous waste" than that prevailing under private capitalism. The second alternative would result in a serious loss of manpower. It seems safe to predict that the Planning Authority would be forced to reintroduce incentive wages and the institution of inheritance (in other words restore inequalities in economic rewards), or impose drastic penalties on those who refused to do the work assigned to them.

Freedom of the members of the community as consumers under total planning thus provides no guarantee that their freedom as producers will be respected, or that this loss of freedom will find adequate compensation in the increased effectiveness of their directed labor. Quite the contrary. Total planning, as we shall attempt to show a little later on, promises to reduce rather than increase the national income. This is indeed a high price to pay for the loss of the right to choose one's way of making a living and with it the loss of all political freedom.

We turn next to the wastefulness of total planning. This issue is very important because proponents of total planning claim, and many opponents concede, that it could protect a society from the enormous material and human losses associated with the business cycle. That these wastes are real and large must be conceded by all fair minded persons. One estimate of the loss of potential income due to depression unemployment of men and machines, in the eight year period 1930-1937, runs as high as $200,000,000,000.[9] Behind these money figures lie countless human tragedies. If the majority

8. In our final chapter heavy inheritance taxes, even confiscatory over several devolutions, are recognized as consistent with Liberalism.
9. National Resources Committee, *The Structure of the American Economy*, Part I, p. 2. (June, 1939.)

of the people come to the conclusion that the periodic repetition of such waste and suffering is inevitable under a system of free private enterprise, it seems quite probable that they will eventually use their political freedoms to destroy the system, even though the alternative would be the loss of all their freedoms. If it can be shown that total planning may well involve even greater wastes, its case will be seriously weakened.

In a free enterprise society the rapid expansion of fixed plant, which is a characteristic feature of the upswing of the cycle, tends to be brought to a halt after relatively few years of expansion by the unwillingness of the people as consumers to provide the funds needed to push capital formation any further. At that point activities slacken, plants remain uncompleted, labor is discharged, wage payments decline, consumer goods industries feel the impact and in turn discharge labor. The cumulative effect of these depression forces is to drive activities to lower and lower levels. There is no need to go further into the mechanism of the business cycle at this point. We are merely trying to establish the fact that, under a system of private enterprise, tendencies are always at work to prevent the development of the capital equipment of a society from going to excessive lengths. The longer the period of liquidation is postponed, the greater will be the degree to which the needs of the future have been overprovided for. This overprovision represents waste regardless of the form of social organization.

Can we count upon a Planning Authority to avoid this relative overprovisioning for future needs? Is it not possible, perhaps even probable, that the Planning Authority, once launched upon a program of capital expansion, will persevere well beyond the point at which savings became inadequate in private capitalism. Its ability to persevere, of course, is due to its ability, through taxation, rationing or other devices, to force down consumer standards. The profit motive provides no automatic check.

The Russian experiment with the first 5-year plan provides an example of relative overinvestment. That plan called for the rapid industrialization and modernization of Russia. Enormous sacri-

fices were imposed upon the citizens of the Soviet Republics in order that resources and man power might be made available for the gigantic task of modernization. With the factors of production all employed, continuation of the modernization was only possible through a progressive reduction in the resources available for the production of consumer goods. Toward the end of the period suffering became so acute, discontent so widespread, that the plan had to be altered suddenly and radically. Labor and resources were shifted to the light industries producing consumer goods. This sudden shift involved the abandonment of all sorts of plants, factories, and machines at various stages of completion. From a purely physical point of view and using the criterion "idle plant" as a test of the business cycle, Russia had experienced a business cycle that was perhaps even more wasteful relative to her more limited resources than that which the United States experienced in the decade of the thirties.[10]

There was one important difference, however, between the results of the Russian cycle and the cycle as it occurs in free enterprise societies. In Russia the labor which had been devoted to the premature industrialization of the country was promptly reassigned to new tasks in accordance with the new plan. The loss, as we have said, was large but it was spread over the whole people in the form of a lower standard of living rather than concentrated upon that segment of the community which had been brought within the influence of the expansion.

This spreading of the cost is far more humane than the concentration of costs which has been characteristic of the free enterprise system. This gain, however, may be dearly bought because the same process of spreading the costs of capital formation permits the upswing of the cycle to be unduly prolonged.

Our conclusion, then, on this second point is that the problem of the business cycle is not peculiar to either a planned society or a free

10. In this connection see Gottfried Haberler, *Prosperity and Depression* (3. ed. enlarged. Geneva, 1941), pp. 45-6. Also Wilhelm Roepke, *Crisis and Cycles* (London, 1936), pp. 102 ff., and James W. Angell, *Investment and the Business Cycle* (New York, 1941), pp. 105-8.

enterprise society. It is the price a people must pay for change. In the long run the price paid by the people under a planned society may be even greater than under a free enterprise society because, as will be shown presently, the latter has at its disposal devices for softening the impact of the business cycle, which do not incur the danger that, in the process, liquidation will be excessively postponed. Nor do these devices require the people to surrender their freedom as producers.[11] If this dual feat can be accomplished under a reformed system of private enterprise, the business cycle argument for total planning will prove to be an argument in favor of maintaining a system of free private enterprise.

Finally there is the problem of peace and war. The case for total planning would still be very strong if it could be shown to make for peace and order in the world. We should then have to balance domestic waste and the loss of human freedom against the gains of a durable peace. War has become so destructive that the verdict might well turn in favor of total planning.

Planning must clearly begin at the national level. Moreover, it must start with some one nation or small group of nations. The simultaneous adoption of comprehensive planning by all the nations of the world can be dismissed as a practical impossibility. In the beginning, therefore, we are confronted with an interdependent world in which the national economies are partly planned and partly free. This freedom must complicate the task of the authorities in the nation which has decided to plan. From the very beginning, if they do not accept the status quo, their plans must provoke changes in internal price relationships. However, at the start of the experiment, internal prices are related to prices in other countries. If producers abroad remained free to sell in the dearest market, an influx of imports would result which would defeat the attempt to raise certain prices. If high tariffs did not suffice[12] quantitative restrictions on imports would have to be imposed to

11. See pp. 29 to 32 below.
12. It is significant that NIRA could not be passed until a clause had been inserted authorizing the President to increase tariff rates wherever the cost-raising provisions of the Act threatened to expose an industry to excessive foreign competition.

protect the artificial price level. Conversely the induced fall in prices of other commodities would increase exports of these commodities if producers were allowed to choose between the home and foreign market. Meantime the producers of these commodities in the free economies would bear the brunt of this artificially induced export and would be quite unable to adjust to it. They would be pitting their private resources against the resources of a nation. Their protests would be prompt and vigorous. Retaliation by the governments of the free economies, in so far as they were not deterred by fear, would certainly follow, however sincere their attachment to the doctrine of free trade.

Thus total planning even by a single powerful economy must result in a reduction of its trade with the rest of the world. More than that, it is likely to reduce international trade as a whole. The free economies, fearing to direct their retaliation exclusively against the planning country, or feeling bound by most-favored-nation clauses in their commercial treaties, would be likely to apply their restrictive measures to all imports, regardless of origin. The resulting internal dislocations necessitate further public controls to protect important domestic groups adversely affected by the initial measures.

Deductive reasoning thus supports historical evidence in favor of the proposition that total planning at the national level tends toward autarchy or national self-sufficiency. National autarchy in turn, since it cannot support the standard of living which would be possible through acceptance of international specialization, has to be justified by appeal to non-economic motives. Hence, at an early stage, every nation undertaking total planning has appealed to the patriotism of its people. Patriotism is a powerful national cement but a corrosive solvent of international sentiment. It can only be kept at "sacrifice" temperature by directing it against its neighbors. The Planning Authority must explain the gap between the welfare potentialities of the Plan and the hardships of the moment by the machinations of jealous rivals.

The language of international diplomacy becomes increasingly

violent. It progressively destroys the basis for compromise.[13] Imperceptibly national planning becomes planning for war. This trend can hardly be avoided. The Planning Authority has to reckon with the increasing suspicion and hostility of its neighbors. Hence the national economy has to be strong. The growing autarchy, however, threatens to weaken the military potential, for no nation possesses within its borders all the materials essential to modern warfare. Strategic foods and raw materials must be imported. But this involves a dangerous dependence upon one's neighbors. The planning concept must be expanded to include control of the areas from which these supplies are normally drawn, or, where the normal sources of supplies lie within the control of major powers, alternative sources of supply must be developed in areas capable of being controlled.

Total Planning is thus a luxury to which only first rate powers can aspire. All others must accept the idea of having their economies planned for them. Their independence comes to rest upon the tolerance of their stronger neighbors, and upon the ability of the latter to agree upon spheres of influence. Prior to the outbreak of the present war German Planners drew paper plans of such a partitioning of the world, but it is obvious that certain areas are equally essential to more than one great power. Thus the objectives of National Planning of necessity shift from internal reform to preparation for war, and finally to war itself.

Paradoxically, this evolution lightens the task of the national Planning Authority. Popular opposition to regimentation diminishes as the threat of war increases. The goal becomes simpler and more intelligible, the necessity of subordinating the individual to the group, more self-evident. It is no longer necessary or indeed desirable for the economy to provide the varied comforts and con-

13. Professor Owsley, in his 1940 Presidential address before the Southern Historical Association (Journal of Southern History, vol. 7, 1941, pp. 3-18), presented convincing evidence in support of the thesis that the vituperative character of the language of debate between North and South in the decade of the 1850's bears a major responsibility for the breakdown of every effort at compromise. Similarly the ideological doctrines in support of national planning during the twenties and thirties of this century debased the currency of international intercourse. The atmosphere became increasingly one of conflict.

veniences to which peace-loving men aspire. Cannon become more important than butter. And it is precisely when a planned economy attempts to cater to the whims of the consumer that its efficiency is tested. Planning for war avoids this test. In the end war may become necessary to save the planners.[14]

Liberal Planning

The remainder of this chapter constitutes an attempt to prove that Liberalism provides a middle way capable of reconciling the often conflicting interests of the individual and the group. In subsequent chapters an attempt will be made to show that the principles of Liberalism are also capable of reconciling the legitimate interests of the nation and of the South.

Liberalism accepts the *laissez-faire* thesis that only free men, free as producers, as consumers and as citizens can use the democratic processes to determine what they want. It recognizes the market and the price system as indispensable methods of inducing men as producers to make the things which men want as consumers. It believes that if the impersonal "dictatorship of the market" is destroyed, men will have to accept the personal dictatorship of government officials. Liberalism sees its great task, therefore, as that of "perfecting the market." [15]

Liberalism, however, is not *laissez-faire*. Even a cursory examination of the assumptions underlying that doctrine reveals the naïveté of those who look to untrammelled private enterprise to solve all the problems of production and distribution.

The principal assumptions of *laissez-faire* are (1) reasonable knowledge on the part of producers and consumers; (2) reasonable mobility of labor, capital and enterprisers; (3) responsibility; and (4) private property.

14. See Note 1 at the end of this chapter for further comments on Planning and Peace in the Post-War Period.

15. For an eloquent restatement of the case for Liberalism see Walter Lippmann's *The Good Society*, especially Chapters X and XI. Anyone familiar with this important book will realize the extent of the writer's indebtedness to Mr. Lippmann's effective restatement of liberal economic and political theory and its application to the contemporary scene.

Knowledge: The business man is supposed to know in what line of enterprise maximum profits are to be had. The laborer is supposed to be fully informed regarding wages in different occupations and in different places. Savers survey the entire field of investment, and unerringly place their money where it will bring the maximum return, risk considered. Consumers are supposed to be able to distinguish between the genuine and the shoddy imitation, to compare their needs of today with those of tomorrow, of their old age and of all the intervening years, and to distribute their incomes to maximum advantage.

Mobility: Each of the parties is supposed not only to know his own best long-run interests but to be endowed with the ability to take prompt advantage of this knowledge. The businessman can shift from the making of shirts to the making of shoes; the laborer from spinning and weaving of cloth to the cutting and sewing of leather. The laborer and businessman alike are supposed to be foot free, ready to move from country to city, from region to region, from nation to nation, in quest of maximum returns. The saver can shift his investments from textiles to boots, from the home market to the foreign market. All this at the dictate of the market.

It would be a gross misrepresentation of *laissez-faire* to state that it assumes that each and every individual could make these radical adjustments over night. The assumption is that there are always enough who can—businessmen who have not yet made any definite commitments; young men looking for their first jobs; current savings which had not yet been invested in factories and machinery.

Responsibility: This is the least understood, yet in many ways the most important, of the assumptions of *laissez-faire.* From the economic point of view the principle of responsibility means simply this: that the business enterprise—be it an individual, a firm, or a giant corporation—is entitled to the full economic reward of its activity, *providing* it meets all the costs, direct and indirect, associated with that activity. For the moment this abstract definition suffices. It will be shown later that under a regime of private property there are innumerable situations in which economic rewards tend to be exces-

sive, due to the ability of an enterpriser to shift costs to others, or to be inadequate, due to his inability to collect from the indirect beneficiaries of his activities. Under such circumstances the boasted harmoney between individual and group interests is destroyed.

Private Property: This institution was regarded by the formulators of *laissez-faire* as necessary to make men free, to secure to them the fruits of their labor, and to set limits upon the arbitrary power of 17th and 18th century absolutism. Blackstone, the great English 18th century jurist, gave the classical *laissez-faire* definition of property, as "that sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe." [16] Taken literally any such absolutist conception would render impossible effective group living. But it will serve as a point of departure.

It does not require much knowledge of history, or of the modern world, to know that these conditions have never existed and never can exist in all the perfection of *laissez-faire* theory. When the statesmen of the early 19th century invoked them to justify a hands-off policy toward child labor, toward public support of education, toward public measures to stamp out disease, to refuse laborers the right to bargain collectively with emerging big business, to prevent quacks from selling poisons to the sick, to save employers from the expense of putting guards on dangerous machinery, they properly brought *laissez-faire* into disrepute. They also showed that they did not understand the true meaning of Adam Smith's great doctrine. Properly understood, *The Wealth of Nations* teaches us that the role of the state, in a regime founded on private enterprise, is to see to it that the conditions which Smith assumed, should actually operate, or, where this is impossible, that suitable substitutes should be provided.

Liberalism, to repeat is definitely not a synonym for *laissez-faire.* Rather it is a *democratic* form of social organization based on private enterprise and *limited* private property rights. It seeks to promote the greatest good of the greatest number by redefining and

16. Blackstone, *Commentaries,* Bk. II, Ch. I.

limiting private rights rather than by transferring them in toto to the state. It substitutes for Blackstone's definition the concept of property as a "bundle of rights"; it presupposes that the people, through their government, not only may but must withdraw from the bundle such rights as prevent the assumptions of *laissez-faire* from operating. Liberalism strives to make private enterprise really responsible. Like the "isms" previously discussed, Liberalism is at once an economic doctrine, a political doctrine, an ethical principle, and an expression of faith.

Liberal social policy is concerned with the conversion of the assumptions of *laissez-faire* into realities. This approach provides a frame of reference by which to judge whether a given act of government tends to perfect and strengthen the capitalistic system or to weaken it.

Consider first the implications of the assumption of *complete knowledge*. When Adam Smith wrote, only a very small fraction of the people could read and write. Universal compulsory education, supported and administered by the state, was an important first step toward making knowledge an effective instrument of social control. But it was not enough. The consumer's task of judging between rival products has become increasingly difficult with the growing complexity of industrial processes. Laws governing honesty in advertising—the Pure Food and Drug Act, for example—constitute efforts to fill in gaps in our knowledge. The saver also needs more information. The Securities and Exchange Commission Act was passed to provide investors with knowledge of new promotions. Present formulas may not always be satisfactory but they represent a step in the right direction. Similarly, public employment offices reflect the need of better clearing houses of information for men seeking work and work seeking men.

The second assumption of *laissez-faire* is *mobility*. Anything that increases knowledge increases mobility, but immobility is so all-pervasive that further state interventions are needed. Thus it has become necessary to extend the conception of education to include adult occupational retraining. The newly created system of em-

ployment offices finds further justification here as a mechanism for increasing mobility. It should also be able to assist in those larger geographical adjustments necessitated by profound changes in economic life. Industries rise and fall in importance and the accompanying changes may involve whole regions. Large numbers may need to be retrained and assisted to migrate from areas of declining to areas of expanding opportunity. A public works program, properly geared to a retraining and employment office service, may be justified as an adjustment device.[17]

Every form of monopoly is a barrier to mobility. Our patent and tariff laws need to be reexamined to see to what extent they play into the hands of those seeking to preserve for themselves favored price situations. The state's attitude toward labor constitutes a particularly thorny problem. It is difficult for the student of social processes to escape the conviction that unionism is essential to the welfare of the workers. The union is far more than a mechanism for exacting more dollars and cents for its members. It is a very human association through which millions of individuals, uprooted from the land, herded into the anonymous barracks of great cities, seek to regain the sense of personal status, seek escape from the disintegrating sense of being mere cogs in a vast machine. The cry "our labor is not a commodity" uses the language of the market place to assert the dignity of human life. While recognizing all this, the social scientist cannot close his eyes to the danger of abuses. When he thinks of the desperately low rewards of millions of southern share croppers and agricultural laborers, for example, he is led to wonder whether trade union restrictions have not reduced the mobility of the weakest and most underprivileged group in the American economy and laid new and heavy burdens on their patient backs. The State cannot forbid men to form unions to protect their legitimate interests and still call itself liberal, but it must see to it that they do not use their power to prevent low paid workers from entering higher wage fields.

17. It will be argued later that public works in practice have all too frequently retarded desirable adjustments. Thus administered they decrease mobility and are therefore inconsistent with liberalism.

To accord to unionism this power is to condemn Liberalism to frustration. How can the Liberal State undertake a costly and continuing program of occupational training, if the products of its program are to be barred access to the jobs for which they have been trained? How can public works be used as an effective adjustment device, if they may not also serve to advance men up the occupational ladder to rarer and more remunerative jobs? [18]

Competition is a control force that the Liberal State must rely on. It was not mentioned as one of the assumptions because it is a simple by-product of the others. It operates automatically where knowledge and mobility exist. Everything that increases knowledge and mobility increases the effectiveness of competition. But competition itself can be destructive.[19] With the growth of population and the multiplication of traffic on the road an increasing number of rules become necessary. If every driver observed "the golden rule" there would still be congestion at the cross roads. "After you, Alphonse," can tie up traffic quite as effectively as "every man for himself, and the devil take the hindmost." Conventions as to the right of way at all crossings must be laid down and traffic lights and policemen are needed at certain points. Nor have some machines in the stream of traffic any claims to being towed gratis by those ahead nor any obligation to perform a similar service for others.

Each machine, that is to say, each individual enterprise must expect to shoulder the full costs of its activities. This brings us to the third assumption—*responsibility.*

18. See Note at the end of this chapter for some further comments on the Union in the Liberal State.
19. The problem of converting competition into an integrating factor in social life is of the greatest importance. There can be no blinking the fact that it is a harsh force. Its purpose is the elimination of the unfit, the transfer of the job of getting the work of the world done to those most capable of utilizing scarce resources effectively. It is the price we must pay for material abundance. For its beneficent effects to outweigh its disintegrating effects, it is important that it should operate on a high plane, and in a society amply equipped with institutions capable of maintaining the sense of common purpose and common goals in the hearts of the contestants. To date nations have been only tolerably successful in establishing within their borders the institutions necessary to render competition sociologically acceptably; the institutions necessary to render competition across national boundaries acceptable are still conspicuously lacking, as the present war demonstrates. Compare in this connection, W. Roepke, *International Economic Disintegration* (London, 1942).

An example may help to make its meaning clear. A slaughter house, erected in a residential neighborhood, might be profitable to its owner. But it would destroy the attractiveness of the neighborhood and soon lead to a wholesale exodus. Homes would be abandoned long before their physical life was over. Land values would decline. Speculators would buy up the properties at a discount and convert them into multi-family homes for the very poor who could not afford to be particular about the sights and smells issuing from the slaughter house. Since the structures were built to house only single families, living conditions would be very unsatisfactory. In brief, the slaughterhouse would rapidly convert an attractive residential neighborhood into a city slum. The original home owners would have seen their investments impaired without any compensation and without even the satisfaction of knowing that the city as a whole had benefitted. Obviously the man who put up the slaughterhouse would not have found it a paying proposition if all the damaged property owners in the neighborhood could have billed him for the damage done to their properties. It paid because the law permitted him to escape one of his responsibilities.

The modern and progressive city meets this violation of the principle of responsibility by "city planning and zoning." Henceforth new uses inconsistent with the city plan are prohibited. Zoning is an exercise of the police power of government and does not call for compensation. It is a power which the Liberal State must frequently invoke, if it is to enforce the conditions which alone justify reliance on private enterprise.[20]

The liberal believes that in a genuinely liberal society the inequalities in wealth and income would be substantially less than at present. Through reasonably progressive taxation of large incomes and large inheritances, surpluses could be secured for investment in the health and education of the underprivileged. By break-

20. As will be shown later, this same principle justifies far-reaching interventions in the field of agriculture. Farming practices which cause soil erosion violate the responsibility principle. A tenant contract which denies to the operator the unexhausted value of improvements not only destroys incentives but also the balance between costs and benefits.

ing down artificial barriers, a sufficient transfer of labor to the less plentifully staffed and more remunerative occupations could be secured to raise appreciably the "effective" importance of the unskilled callings. Inequalities would persist but they would not be great enough to threaten the system.

Before leaving this problem of the limits of planning under Liberalism one more issue needs to be discussed. Should government in a liberal society assume responsibility for regularizing the flow of goods and services over time? In other words should it undertake to control the business cycle, and if so, how?

Let us take up first the general issue of "public works." Is there a place for public works in the agenda of the liberal society? The question can be answered definitely in the affirmative. Adam Smith recognized this fact when he declared that the third great duty of the sovereign, after defense and the administration of justice was the

> erection and maintaining of certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain because the profit could never repay the expense to any individual or small number of individuals though it may frequently do much more than repay it to a great society.[21]

The justification for public works in a liberal program derives from the *principle of responsibility*. In situations illustrated by the slaughterhouse, government is obliged to intervene negatively, that is to prohibit activities in fields where the price system cannot oblige the private enterpriser to pay for the "secondary" losses imposed upon others. In similar fashion, there are situations in which the price system does not enable the private enterpriser to recover the "secondary" benefits accruing to third parties. Wherever private enterprise yields important indirect benefits, there is a tendency for investment to stop short of the "social optimum"—i.e. of the point at which the marginal productivity of factors is equal throughout the entire investment field. This tendency to under-investment frequently occurs where durable works of multiple-purpose type are involved.

21. *Wealth of Nations*, Book IV, Chapter 9.

A system of dams, for example, may improve navigation, regularize stream flow, reduce flood damages and increase the property values of riparian lands far distant from the dam sites. Under private enterprise the building of dams is limited by the profits to be secured from the sale of power, a service which can be individualized and sold for a price. The substantial indirect benefits cannot be caught by this collection device. Government, on the other hand, has at its disposal not only the price mechanism but the general taxing power as well.

Essentially this is the theoretical justification for multiple-purpose projects such as TVA, Boulder Dam, etc. Road building as a public function belongs in this same category. Public education is also a multiple-purpose activity in which there is sure to be relative under-investment if exclusive reliance is placed upon fees. Public expenditures on health can be justified under both the negative and positive aspects of the principle of responsibility. In brief, there is a large field in which the optimum allocation of resources can only be reached through a public intervention involving substantial public expenditures.

It is to be noted that this principle does not provide an answer to the administrative issue involved. It indicates that public support is necessary if the optimum is to be reached, and nothing more. The equilibrium position can be reached through government subsidies to private enterprisers in multiple-purpose fields or through public ownership. The correct decision in each case involves the principle of comparative administrative advantage. Under which auspices will the job be better done? The answer will differ from country to country and from time to time. As long as a broad field for private enterprise is preserved the Liberal State can experiment with both subsidies and public ownership. From the experimental point of view the subsidy approach is likely to be more flexible than the ownership approach. It may consist of a single grant, a grant running over a limited number of years or indefinitely, and finally, it is at least somewhat easier to stop subsidies than to return an activity to private enterprise.

Unfortunately, these "secondary" benefits defy accurate evaluation. There is always the danger, under the pressure of local interests, of pushing investment beyond the "social optimum." This over-investment is waste. This point needs emphasizing because of the fact that an explanation of business fluctuations has recently gained currency which, if accepted uncritically, can easily be distorted into a justification of public works on a grand scale as a means of providing abundance for all.

This brings us to the problem of the business cycle proper. Its causation is still among the mysteries of economics. One school of thought attributes the periodic breakdown of employment to the tendency of savings to outstrip investment. The difference between these two magnitudes, known as hoarding, becomes public enemy number 1, to be eliminated at all cost. Whenever and as long as hoarding continues government spending must exceed government taxing by an equal amount if unemployment is not to ensue.[22]

The implications of the deficit-financing theory are far reaching and disturbing. Public spending becomes a public virtue; balanced budgets an outworn fetish, or taboo, appropriate to a simpler era. Quite aside from the theoretical soundness of the doctrine, this practical question must be faced. Can our American democracy with its record of wastefulness and its lack of discipline stomach such a heady wine? Does not the doctrine open up a Pandora's box of evils? Perhaps modern man is closer to the savage than we closet philosophers like to believe. Perhaps he still needs to live according to the outworn fetiches of an earlier day. "A penny saved is a penny earned" may still have pragmatic values with which we can ill dispense. Certainly we cannot take it for granted that the system of

22. J. M. (now Lord) Keynes of Cambridge University and Alvin H. Hansen of Harvard University are the best known exponents of this thesis. See especially Keynes *The General Theory of Employment, Interest and Money* (London, 1936), and Hansen's *Fiscal Policy and Business Cycles* (New York, 1940). I have summarized the pump-priming and the deficit-financing arguments and my views regarding their validity in "Public Works, Economic Stabilization and the Rural South," Paper Number 2 of the *Institute of Research and Training in the Social Sciences*, Vanderbilt University, Jan., 1942.

private enterprise can survive the popular acceptance of the deficit-financing thesis.

As a matter of fact the doctrine itself is very debatable. Economists are sharply divided on the issue. Professor Haberler, of Harvard, in his League of Nations Study, *Prosperity and Depression,* argued that the prosperity period ordinarily ends not because of oversaving but for precisely the opposite reason: because there is not enough saving to carry capital formation on any further. The mass of the savers want to enjoy more of the fruits of their efforts. A shift of demand toward consumer goods occurs; enterprises manufacturing capital goods find it increasingly difficult to secure funds; unemployment follows, because of the inability to utilize this labor immediately in the manufacture of consumer goods. Hence purchasing power falls off; this decreased purchasing power now affects the consumer-goods industries—first through retailers, then back through wholesalers to manufacturers—and the depression is under way. It is important to note, however, that the initial force, according to this analysis, is not lack of investment opportunities but a time lag in the capacity of the system to reincorporate labor into the productive processes.[23]

Haberler does not reject outright the oversaving thesis as a theoretical impossibility though his argument taken as a whole, when disengaged from his objective exposition of contemporary theories—and this is not entirely easy—appears to lean to the thesis that the economic system tends to attain reasonably full employment before the forces of recession gain the upper hand. In any event he does assert very clearly, in Part III, Section 7 of the 1941 edition of his book, that "a mere spending policy cannot solve the problem of maintaining output without interruption" once full employment has been attained. "If government spending is continued inflation is brought about; if spending is discontinued, investment demand collapses and depression ensues."[24]

In brief, a government, committed at all costs to maintaining full

23. G. von Haberler, *Prosperity and Depression* (Geneva: League of Nations, 1941), p. 322.
24. *Ibid.*, p. 506.

employment by public spending, can only escape the disaster of inflation by keeping down consumer purchasing power and directing the resulting flow of savings into investment channels in such a way as to avoid production stoppages. But this is to introduce, in time of peace, the economic policies appropriate to war times. It is clearly not a solution consistent with a private enterprise system dedicated to peace, abundance, and freedom.

My own conclusion is that the classical theory of value and distribution and modern business cycle theory both have important and valuable implications for the social policy of Liberalism. Classical theory offers a clue as to the optimum allocation of productive resources under certain not unreasonable assumptions. These assumptions in turn provide the criteria by which to test the consistency of public programs with respect to one another and to the system of free private enterprise. It indicates that governmental programs which genuinely promote knowledge, mobility and responsibility will strengthen rather than weaken the system, and that the considerable spending involved in their execution need not arouse misgivings. Business cycle theory indicates—and there is nothing in classical theory to the contrary—that as large a portion as possible of public spending should be massed in depression years with a view to mitigating the violence of swings in the business cycle. Public works in particular should be so massed. Most units of government should "forward plan" their public works programs and time their execution in counter-cycle fashion. These programs should not, however, be pushed beyond acceptable frontiers set by public opinion, simply because idle men and idle resources still persist. In the selection of projects, and the sites for their execution, volume of employment should be subordinated to adjustment of populations and occupational skills to the needs of a changing society. Expenditures designed to build up and husband the nation's natural resources (conservation), and its human resources in the form of health, education, and occupational skills, deserve high ranking as adjustment devices. Emphasis upon adjustment rather than employment renders more obvious the need of keeping the wage level

on public works programs in line with the wage-paying ability of the private economy. Acceptance of this principle calls for regional variations in rates in public employment related to regional differences in wage rates in the private economy. Otherwise a large scale public works program may actually increase unemployment and disrupt the entire economy in a low money income area. As we shall see this principle has particular relevance in the case of Federally supported work programs executed in the South.

Emphasis upon adjustment rather than employment is more likely to enlist the understanding and good-will of the saving and entrepreneurial groups, whose cooperation is essential. It should always be borne in mind that the equilibrium between saving and investment depends as much upon the propensity to invest as it does upon the propensity to save, and that a policy of strengthening investment is more consistent with a healthy and vigorous system of free enterprise than a policy of discouraging saving.

The more resolutely public policy is based on adjustment, the more generously can public spending proceed within the limitations of a free enterprise economy. Every program aimed at stabilization should be capable of satisfying this test question: Will it assist individuals to make the adjustments which they would make if they knew all the available facts and possessed the ability to act? In other words "adjustment" and not "security" should be the key note of public policy. Security like happiness is a by-product of human endeavor. In seeking for it directly we appear to have increased enormously the instability and insecurity of life in general. Adjustment, on the other hand, is dynamic and positive. It implies a goal, of course, but as long as we are prepared to maintain the system of private enterprise, we shall not have to rely on our elected officials to lay down the goal. The price system does that. The task of our law makers and our officials is to provide the legal and social institutions which will enable us to make the necessary adjustments for ourselves.

Note 1

Planning and Peace in the Post-War World

The scepticism regarding total planning expressed in the body of this chapter is responsible for the Liberals' misgivings regarding the post-war world. They know that Germany and Japan must be defeated. They appreciate without reserve the heroism of the Russian people. They favor all-out aid to Stalin's Russia. Knowing that the final victory will be a Russian victory, no less than, and perhaps much more than a victory of the democratic peoples, they realize that the peace will have to take full account of Russian ideals. How, they ask, can democratic and totalitarian ideals be reconciled at the peace table? Compromises there will have to be. Will these compromises result in a post-war society of nations, some organized on liberal and some on totalitarian principles? Can such a solution be anything but the prelude to further wars?

Personally I should be inclined to extreme pessimism, if the solution took the form just suggested. Fortunately it seems equally reasonable to hope that the solution may take another form. The final outcome may involve some further extension of social controls within the free enterprise nations and a considerable demobilization of controls within Russia and the defeated totalitarian nations.[25]

When the war ends all the nations will be organized on totalitarian lines. That is the price which a democratic people must pay for victory. With the return of peace public opinion in the democracies will demand the repeal of war time controls. It seems prob-

25. Another possibility acceptable to believers in the free enterprise system would be for Soviet Russia to continue in complete insulation its quest for "Communism in one country." Some argue that Russia's vast undeveloped resources and Stalin's suspicion of the capitalistic democracies combine to make this course both possible and probable. Its adoption implies (1) the cancellation of all lend-lease obligations, (2) reconstruction of war damages without benefit of foreign loans, (3) a level of post-war sacrifices upon the Russian people substantially greater than would be necessary if foreign aid were accepted. With insignificant exports and imports Russia could long continue a large oasis of total planning in an essentially liberal world. Time will tell whether either of these courses is pursued. Should Russia's decision fall in favor of integration into a world economy, the problem of reconciling national planning and international peace may well become the dominant issue of the second half of the Twentieth Century.

able, however, that peace will not date from the day organized fighting ceases. There will be a rather lengthy interlude which will be neither war nor peace. During this period legislative bodies in the democratic countries will be forced by the pressure of events to leave with the Executive many of his war powers. The reconversion of national economies to peace will require government assistance. An executive strong enough to carry through America's moral obligations during the post-war interlude will also be essential to the building of post-war arrangements worthy of men's trust. There must be a fairly long vista of peace ahead for private enterprise to flourish again. Otherwise public opinion will demand that man's quest for profits be subordinated to all-out preparation for the next war. In brief, social controls within the free countries are almost certain to remain at a high level for some years after the war.

Let us now look at the situation as it may develop from the Russian side. There the prosecution of the war did not require the surrender of additional personal liberties by the people. Russia for a generation had been on a war basis. From an admistrative standpoint the war involved no break with the immediate past. The country moved smoothly from a condition of technical peace to one of actual war. From a psychological point of view, however, the war introduced a new element into the situation. All the people now accept as necessary the regimentation, so long characteristic of the regime. Compulsions no longer meet with spiritual resistance. The people's blazing hatred of Germany has burned out all lesser hatred. The greater brutalities of Hitler's armies have blotted out the memory of the brutalities of Stalin, his predecessors and their Komissars. Stalin appears to have become the symbol of all Russia's aspirations. The war has legitimized his regime.[26]

This change is profoundly important because of the fact that a regime which lacks legitimacy cannot dispense with force. This is

26. As far as I am aware, credit is due to the late Professor Guglielmo Ferrero for bringing out the importance of this principle. See his *Pouvoir: les Génies Invisibles de la Cité.* (New York, 1942.)

what makes it so exceedingly difficult for a dictatorship to evolve peacefully. It begins with violence and it ends with violence, and the men who engineer it are apt to pay with their lives or their liberties when their control weakens. They live in fear and fear begets brutality. It is a vicious circle.

The war has broken this circle. Stalin will emerge at the end of this war a dictator but he will have behind him the loyalty of his heroic people. Henceforth he can use his great powers without fear for his personal safety. He can use them, for example, to widen the area of private initiative if he deems such a shift to be in the nation's interest. The reintroduction of incentive wages, the restoration of the family, the growing tolerance of religion, the reversal of policy regarding divorce in Stalin's Russia were all indications that in the pre-Munich days he was moving cautiously toward the liberal tradition. They afford grounds for hope that the evolution may be even faster after the war. In the days ahead the prospects for free enterprise may actually be enhanced if those in authority during the post-war interlude are clothed with the powers necessary to build the foundations of an international order—providing they believe that an area of vigorous private enterprise within each of the great nations must form part of the foundations.

Note 2

The Trade Union in the Liberal State

The propriety of the trade union in the Liberal State is conceded. It is difficult to resist the impression, however, that recent Federal legislation has expanded organized labor's rights without correspondingly extending its responsibilities. Its control of the supply of labor has clothed unionism with a public interest. The "rule of reason" should apply to union activities as well as to those of corporations. Union qualifications for membership should be reasonably related to the job skills involved; union dues to the fulfillment of its lawful activities. It should be equally unlawful for a union or a corporation to support a political party financially. Full pub-

licity of audited accounts should be required of unions as it is of corporations. Having clothed the union with a substantial control over economic life, the state should see that democratic processes are scrupulously observed in the election of union officers and in the formulation of union policy. The union is a legitimate child of democracy. To legislate it out of existence would be to strike at one of the foundations of democracy. But undemocratic exercise of power by the union constitutes no less a threat to democratic institutions. In the language of the labor movement the trade union in a liberal society should be "open," not "closed."

The reply that effective bargaining requires the closed shop would be more convincing if trade unionism encompassed the entire labor force—farm and non-farm—instead of a minority—and if the whole responsibility for the support of the unemployed rested upon the union. In that event labor management would always have to balance the advantages of higher wages against the disadvantage of higher assessments upon the reduced numbers enjoying these higher wages. Unless the unemployed were content to accept substantially less in unemployment benefits than the employed received in wages, labor management would find that the interests of its constituency lay in a bargaining program directed at a high rate of employment instead of a high rate of pay. In that event accordance of the closed shop principle could be defended. But in the genuinely Liberal State there is no need for such a degree of bargaining power. With old age security, unemployment insurance, an expanded educational system with stipends to the children of poor families, occupational retraining for adults, and a cyclically planned public works program, the market forces of supply and demand will operate more continuously in favor of labor. To accord, in addition, to a portion of the labor force the monopolistic weapon of the closed shop is very apt to result in an excessive exclusion of workers from higher wage segments of the private economy, at the cost of the unorganized, and to bring about a correspondingly excessive expansion of the public economy. The power to control the labor supply begets irresponsi-

bility unless accompanied by the duty of taking care of those denied employment as a result of union policy.

In brief the need for the closed shop is much less now than formerly and promises to be still less in the future. This does not mean that there will be no need for the union in the future. Enlightened business management has discovered that it can handle its personnel problems much better through representatives of the man, rather than through individual dealings. The representatives must really have the confidence of the men, which means that they must be freely chosen by the workers. In such an atmosphere of mutual confidence management can and has tapped unsuspected resources in the way of loyalty, and of productive ideas. In such an environment, it is safe to predict, the vast majority of the workers will want to belong to the union, and to assume the accompanying financial responsibilities. For their own protection, however, against their own representatives, they need the right to resign without loss of employment.[27]

27. For a convincing statement of the case for the open shop and the open union by a man whose friendliness to the labor movement is not to be questioned, see John Chamberlain, "Democracy and the Closed Shop," in *Fortune*, January, 1942. See also Sir William Beveridge's comments on this problem as quoted below, pp. 165-6.

Chapter II

THE SOUTHERN REGION: ITS NATURAL RESOURCES

The Concept of Regionalism

AS USED in this study, the term region means a geographic area occupied by a people who feel that they have more interests and loyalties in common within their own group than they have with those in other areas. It is not necessary, for present purposes, to catalogue all the forces responsible for these loyalties. Geographical influences obviously play an important part—climate, soil, etc. A common language is a factor. Memory of past triumphs enjoyed and tribulations endured together promote emotional unity. A predominant way of earning a living is a unifying force. An alien minority heightens emotional unity. It affords a convenient but socially dangerous scapegoat for real and fancied grievances. Hitler has used the Jew for this purpose in Germany and apparently believes that he can use him further to create a giant totalitarian region united by the negative force of hate rather than the positive attraction of affection and confidence. The Negro helps make the South the most self-conscious of the American regions.

The Southern Region as used in this study is the Southeast of Howard W. Odum's *Southern Regions of the United States*,[1] consisting of the following eleven states: Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, and Louisiana.

The validity of Odum's Southern Region seems to rest on the following combination of factors.

1. A common emotional loyalty based upon a long and costly

1. (Chapel Hill, N. C., 1936.) Odum recognizes five other regions: the Northeast, the Middle States, the Northwest, the Southwest and the Far West.

war and an even more prolonged and humiliating period of extra-regional control which created a sensitivity to criticism that even today renders difficult the solution of problems calling for federal-state co-operation.

2. The presence of a large and very distinct racial minority, which the white majority group regards as "inferior" and which it is not prepared to assimilate.
3. An economic structure that has remained more predominantly agricultural than that of any other populous region.
4. A warm climate that favors cash cropping and a topography and climate combined that render soil conservation unusually difficult.
5. A relative cultural isolation resulting from the absence of immigration from other regions or from abroad. Almost ninety-eight per cent of the 1940 population was native-born of native parentage.
6. A social and political conservatism which is due to all the above factors.
7. A regional rate of population growth which exceeds that of any other populous region and which definitely outstrips the supporting capacity of the region's dominant enterprise—agriculture—as it is now practiced.
8. Finally and paradoxically, local diversity is a characteristic of the region. The Industrial Revolution has not yet destroyed the rich local variations in Southern life which were originally implanted upon it by mountains, rivers, interior plains and oceans. Yet all are held together by the predominance of the agrarian way of life and those emotional loyalties which, more than any other force, make the concept of regionalism a reality.

These eight characteristics imply neither praise nor blame. In combination they make the South *the* most distinctive region in the United States. They account for the charm which the region invariably exercises on the visitor who comes not to reform but to understand. They explain the region's tough resistance to change from outside pressures. Anyone who has the temerity to talk about

planning for the Southern Region must reckon with them as vital realities.

There is less agreement regarding the term *regionalism* than regarding the term *region*. It belongs to the long list of conflicting "-isms" to which men pledge their faith. It embodies an ideology—a point of view—an emotion. Like all stereotypes, it is colored by the emotions we put into it. One who dares to use an "-ism" can do no more than define it and then hope that both he and his readers will remember the definition.

Our definition is as follows: Regionalism is an emotional loyalty to the traditions and folkways of an area, tempered by loyalty to the larger grouping known as the nation. As a rational doctrine, regionalism recognizes that the region is part of a larger whole in which the welfare of the whole and the parts are mutually interdependent. Just as liberalism denies the inevitability of conflicts between the democratically determined wants of people in different nations, so regionalism denies the necessity of conflict between national and regional interests. In positive terms regionalism asserts that full and complete analysis of any apparent conflict will reveal a solution capable of harmonizing national and regional aspirations.

This assertion is not to be interpreted as a denial of the possibility of genuine and acute short run conflicts between regional and national interests. For example, the unsubsidized migration of an industry from the Northeast to the Southeast may well be immediately harmful to the former and beneficial to the latter. Is there any national interest involved that would justify measures to stop the movement? The answer, clearly, is no—and not merely in the interests of the nation as a whole, but in that of *both* regions. In the absence of artificial measures to check the trend substitute activities may be expected in the area from which industry is migrating. These new developments may leave the area better or worse off than before, or in the same relative position. In any event they promise to leave the area and the nation as a whole in a better and sounder position than that which would result from checking the outmovement by protective measures.

The only constructive remedy for an area faced with the loss of old established industries lies in an inventory of its resources, a reexamination of its tax structure and its regularity practices, for evidences of unjustified burdens upon existing industrial enterprise and upon potential new developments, and an energetic readaptation of its economic life to altered national and international conditions. One of the important tasks of Congress is to resist regional pressures for special legislation, designed to block normal developments. If it can live up to this negative responsibility, the people of the various regions can make most of the adjustments which are in their own long run interest as well as in that of the nation as a whole.

During the past quarter century New England has had to face the fact that a number of her once great industries were gone for good. The region has demonstrated its capacity to meet the resulting problems. Industrial diversification and the development of a great recreational program has been its answer. This adaptation was not entirely spontaneous. Public and private assistance were necessary. The several states revised their tax laws. Massachusetts, for example, repealed its tax on machinery. Rhode Island removed from the tax rolls plants idle for more than one year. Industrial and university research laboratories worked on the problem of substitute enterprises. The New England Council has actively promoted this comeback. It has been substantial. An Associated Press dispatch in the *New York Times* of August 16, 1939, says that a total of over 14 million square feet of idle floor space had been reoccupied since July, 1936, and that some 7,500,000 square feet of new factory and manufacturing space was constructed in the same period at a cast of over $38,000,000. Nonetheless, the readjustment has been and continues to be very painful. It is the price which this pioneering area must pay as industrialism develops in other parts of the country.

The industrialization of the South is a natural phenomenon, comparable to the earlier industrialization of Germany and the northeastern part of the United States. These latter developments were

apparently at the expense of Great Britain. In fact, however, Britain benefited. Throughout the long period of German industrialization, the volume and value of trade between Germany and Britain steadily increased. Each remained the other's best customer. Nonetheless the strains steadily weakened popular faith in the beneficence of free trade. In 1931 Great Britain abandoned her historical policy. The return to protection did not solve Britain's problem, but it did contribute to the further disintegration of international relations and to World War II. This statement is not made in any sanctimonious spirit. American policy is too heavily charged with responsibility for the present catastrophe to warrant stone throwing by Americans. We are justified, however, in drawing such lessons as we can from this English experiment. And one of them is that internal disintegration can only be avoided if the various regions of the United States avoid protective measures designed to prevent normal changes in the geographic pattern of American economic life.

In similar fashion Southern industrialization is providing a larger and more profitable market for the North. Particular interests in the Northeast will continue to suffer genuinely and articulately, but others in the same region will enjoy even greater benefits without any awareness of the fact that their gains have been at the expense, in a sense, of their co-regionals. It is this unawareness of benefits which frequently make it possible for the damaged parties to appeal successfully for national legislation, designed to check desirable adaptations. The North-South controversies over freight rates and wage differentials are the outgrowth of these readjustment tensions. The old "industrial quadrilateral" seeks to protect its vested interests by measures designed to increase Southern costs and the South responds with subsidies and tax exemptions.

If, within these United States, we are not prepared to observe the comities of regionalism, there can be little hope that, in the arena of world affairs, men will avoid the excesses of nationalism. Britain's return to protection and the present war itself bear eloquent testimony to the fact that vested short run interests all too often prevail over the more permanent interests of the majority. It is

the dominance of the short run point of view that makes the preservation of peace so difficult, and the debate between the apostles of nationalism and internationalism so meaningless. If men's sights could be set upon the long run aspects of change it would be apparent to all that intelligent selfishness and intelligent altruism are one and the same thing.

The spirit of regionalism may yet prevail if the majority can be made to understand where their long run interests lie, and if the minority can be assured that they will not be expected to carry the whole costs of change. The function of the Liberal State is not to block change in the interests of minorities but to assist minorities to adjust themselves to changes.

This study is largely devoted to an analysis of Federal, state and local interventions from the regional point of view. The following assumptions underly the analysis: (1) that the factors land, labor, capital and business ability—particularly when allowance is made for differences in subclasses within factors—are present in very different proportions in different regions; (2) that the optimum combination of factors in each region is that which makes maximum use of relatively abundant factors and minimum use of scarce factors; (3) that this tendency results in marked variations in the market valuation of factors as between regions; (4) that these variations provide an incentive for interregional factor movements; (5) that factor mobility is less between than within regions; (6) that healthy national life depends upon healthy regional life; (7) that healthy regional life depends upon a reasonable diversity of occupational opportunities within the region; and finally (8) that, when public interventions to reduce regional differences in levels of living are regarded as desirable in the national interest, preference should be given to measures designed to promote capital movements rather than movements of labor.

The bearing of these assumptions on policy is obvious. Accepting them, one will not be disturbed by considerable differences in factor rewards in different areas. They will be regarded as having a functional purpose. In a region where population tends to in-

crease rapidly as a result of an excess of births over deaths and where capital formation is slow, the low wages which will tend to prevail will attract extra-regional capital; conversely in areas where the rate of capital formation is relatively high and the natural rate of population increase is low high wages will tend to prevail and will attract extra-regional labor. In brief it is through these differences that the "market system" exercises a constructive equalizing influence. The fifth assumption is a recognition of the fact that the forces of equalization work "exceeding slow." Indeed, adjustment may proceed so slowly that irreparable harm may be done to the natural and human resources in low income areas. In that event the Liberal State, as argued in the preceding chapter, may properly interfere to reinforce the "market's" efforts at adjustment. The last three assumptions together constitute in effect an unsupported assertion that, when an intervention aimed at adjustment is clearly indicated, the bias should be in favor of increasing the mobility of capital rather than that of labor. No attempt will be made at this point to prove this assertion. The whole subsequent analysis of the problems of the Southern Region will constitute the proof.

The concept of regionalism necessitates a broadening of the engineering emphasis that was predominant in planning as long as it was confined to city and metropolitan affairs. When applied to the region, planning is concerned with balance. This brings the general economist with his analytical tools into the picture. It also brings within the frame of reference every major governmental intervention and every activity of private groups capable of significantly influencing the relationship of population and capital to resource utilization.[2]

We have neither the competence nor the desire to paint in the

2. Compare the following:
"Regionalism has made enormous strides in recent years. It is a movement which may be expected to progress steadily and rapidly. The problem of the planner is to collect the basic information, outline what needs to be done, criticize proposals which may be advanced without sufficient investigation. In this planning process there is a race between regional consciousness which is traditional, emotional and non-rational and the intelligent planning, instrumentation and criticism, whereby they may be directed into the most fruitful channels."—National Resources Committee, *Regional Factors in National Planning* (p. 179).

details of the rich mosaic of Southern life. It is our purpose to single out the two great trends in Southern development which, left uncontrolled, cannot fail to shape this region—and shape it unfavorably, regardless of the goal that any reasonable person may wish to propose. The first of these trends deals with the region's natural resources; the second with its human resources. The first of these trends is dealt with immediately below. Population trends are treated in the next chapter.

The Region's Natural Resources

There is no need, for the purposes of this study, to attempt an exhaustive catalogue of the Region's natural resources. It suffices to note that the area possesses the prerequisites for a diversified and vigorous economic life. Its resource base rivals, if it does not surpass, those of some of the Great Powers. The rulers of Japan, Germany and Italy would count themselves fortunate if they had within their borders the crop, pasture and forest areas, the subsurface wealth and the hydroelectric potentials of this region. Our task is to explain why such a large proportion of the people inhabiting this relatively favored region should enjoy a material standard of living so far below that of the people in other parts of the United States and, indeed, below that of millions of peasants of Eastern Europe.

Mineral Wealth. The 1939 *Blue Book of Southern Progress* lists eighty-eight minerals as present in the South in commercial quantities. While the South of the Blue Book includes five border and southwestern states and the District of Columbia which are excluded from our Southern Region, most of the listed minerals are also to be found in the latter. The following are among the most important: asbestos, asphalt, barite, bauxite, clays, feldspar, fluorspar, gypsum, lead, marble, mercury, phosphate rock, pyrites, salt, sand and gravel, silica, sulphur, zinc, and the three great prerequisites for modern industrial development, iron, coal and limestone. These last three, found in a unique combination in central Alabama, appear

destined to make Birmingham one of the great iron and steel producing centers of the world.

The production of minerals within the South increased more than ten fold in value between 1900 and 1937 while national production increased just over four fold. The South's percentage of total production rose from 4.5 in 1900 to 7.3 in 1910, to 10.9 in 1937. In that year it accounted for a trifle over half a billion of the $4.7 billions produced by the nation as a whole.[3]

The Soil. Much more important to an understanding of the contemporary South is a knowledge of its soils. On the conservation and effective use of this resource depends very directly the welfare of 60 per cent of the population. That of all the rest is only a little less involved.

Really good lands, like superior human talents, are comparatively scarce. Inequality is apparently a universal phenomenon, as present in the physical and biological as in the social universe. For the country as a whole only some five per cent of the land area is rated as grade 1, according to a recent survey. Eleven and 18 per cent are classed as grades 2 and 3 respectively. Almost one-half falls in the fifth and lowest grade; on close to two-thirds it is difficult if not impossible for man to wrest a decent living, if reliance is placed upon its agricultural potentialities. Futhermore, the various grades of land are present in very different proportions in the various parts of the United States. The Middle States stand out as the most favored agricultural region. Only a trifle over one-quarter of this region's land area falls in the lowest two grades; over one-half is equally divided between the top two grades. By contrast, 56 per cent of the land area of the Southeast is rated lower than and only 13 per cent higher than grade 3. This differential has a magnified effect because of the greater number of people in the area directly dependent upon agriculture for a living. The Southwest, the Northwest and the Northeast have even smaller proportions of good

3. Computed from a table in the *Blue Book of Southern Progress* (Baltimore, 1939), p. 47.

land, but their farm population-good land ratios are all superior to that of the Southeast.[4]

This unfavorable population-land ratio accounts in good part for the very low per capita productivity of the farm population in the Southeast. It was less than one-half of that prevailing in the rest of the country during the mid-nineteentwenties. The following table brings out the enormity of the differences between the regions.

TABLE I

AVERAGE NET VALUE OF AGRICULTURAL PRODUCTS PER YEAR PER AGRICULTURAL WORKER, BY REGIONS, 1924-28 [5]

	Net Value of Products per male worker	*worker*
United States	$1,189	$1,063
Northeast	960	878
Middle States	1,508	1,438
Northwest	2,099	2,044
Southeast	672	552
Southwest	1,267	1,160
Far West	1,780	1,408
United States, except the Southeast	1,495	1,408

Improvements in farming techniques can undoubtedly raise rural living standards in the Southeast. The preponderance of evidence, however, points to the conclusion that a reduction of the direct pressure upon the land will be necessary, if the productivity of the Southern farm population is to approach that in other parts of the country.

This conclusion is reinforced by the record of soil wastage, particularly in the Southeast. According to a reconnaissance survey made in 1934, only some 38 per cent of the 1900 million acres comprising the United States was found to be free from erosion. Some 378 million acres, an area approximately equal to New England, New Jersey, and the eleven states of the Southern Region, are estimated to have lost more than three-quarters of their top soils.[6] The desert in on the march in the United States.

4. The figures here cited are computed from Table 7 on page 127 of *The National Resources Board, Report, December 1, 1934,* Pt. II.

5. From National Resources Committee, *The Problems of a Changing Population* (Washington, 1938), p. 63.

6. N. R. C. *Soil Erosion, passim.*

Only against the perspective of vast time periods can the impact of this insidious march of the desert be fully appreciated. In *Behold Our Land,* Robert Lord has presented an unforgettable word-picture. He runs off for our benefit an imaginary film covering three-quarters of a million years in a year's continuous run. The great ages in the formation of the earth and of plant and animal life pass in review. Late in the year man as we know him appears upon the stage. Civilizations rise and fall, some of them buried under man-made deserts, mute witnesses of the consequences of destroying the balance between soil formation and soil destruction. White men have been at work on the American continent for only the last 20 seconds of the film's long run and in that brief space of time have ruined 50 million acres, almost ruined 50 million more, seriously impaired 100 million and are depleting at an alarming rate 100 million more. This 300 million acres represents almost one-half the tilled or tillable acreage of the United States.[7]

Soil experts speak of the soil profile.[8] This is a cross section from the surface downward to the underlying rock formation. It consists of three horizons. The "A" or upper horizon is a thin film of earth varying from 4 to 20 inches in depth, with 7 inches a good average. Below that lies the "B" or sub-soil horizon varying in depth from 10 to 40 inches. The "C" horizon, the last and lowest, consists of the substratum of parent materials. Soil productivity, at any given time, depends largely upon the condition of the "A" horizon. It takes thousands of years to form an inch of this precious top-soil; it can be destroyed in a single generation. While plant nutrients can be returned by artificial fertilization[9] and by plowing under crops, it is prohibitively expensive to replace the physical body of the soil. A cubic yard of soil weighs more than a ton. Exposed to wind and rain, tons of top-soil can be carried away in a single day. Erosion is destructive soil transportation.

The Southeast leads the nation in soil erosion primarily because

7. A paraphrase of the *New York Times Book Review.* October 30, 1938.
8. This description of the soil profile follows closely the account in the N. R. C. *Soil Erosion.*
9. See pp. 83-4 below for a possible qualification of this point.

of the rolling nature of the terrain, the composition of the top-soil, the high and torrential rainfall prevailing over most of the area, and the long open winters. Frozen soils cannot erode. The frost-free Southern soils are most exposed in winter when they lie idle and unprotected against the torrential downpours characteristic of that period. It is the violence and not the amount of precipitation that causes most of the damage. Cultural and frequently expensive adaptations will be necessary before the South's abundant rainfall can be counted among its blessings.

Soil experts have measured the rate of soil destruction under different types of cultivation. For Mississippi, according to tests made by the Southern Forest Experiment Station, six inches of top-soil will be carried off of a 10 per cent slope in ten years if planted to cotton with the rows running up and down the slope; planted to Bermuda grass is takes 10,000 years to do the same amount of damage.

The American tradition is one of waste. This was natural enough in the early days of our history when population was sparse and resources seemingly inexhaustible. We need not spend time criticizing our forefathers. They adapted themselves to a new and hard environment. The frontier is gone but frontier ways still persist. Farming, as someone has said, is for most Americans simply a set of inherited motions. Too many persist in a frontier type of farming in complete disregard of their own long run interests and of the physical characteristics of the soil. Leaching constitutes another and serious threat to the soils of the South. Month in, month out, leaching dissolves and draws away the organic materials with which its soils are none too richly endowed. As long as the top-soil is intact, the loss can be made good, in part at least, by the use of fertilizers. This is costly, but it is the tribute that the South must pay for abundant rains and a long growing season. Unfortunately, these same leaching rains, falling on tens of thousands of denuded hillside acres, carry off with them in muddy torrents the precious top-soil. In the process navigable streams are destroyed, fertile bottom lands are flooded, while others are covered with sterile sand

and silt. Erosion is a double edged sword, destroying alike the acres that give and the acres that receive.[10]

Mississippi soil experts estimate that erosion control measures are necessary on slopes in excess of one per cent. The erosion threat may be greater in Mississippi than in any other Southern State, but on millions of upland acres the difference is only one of degree.

In Tennessee, for example, gullies have practically destroyed three million acres during the past 100 years,[11] and sheet erosion has removed from 75 to 100 per cent of the top-soil from eleven million acres. In nine counties between Knoxville and Chattanooga three-fourths of the land used for agriculture is actively eroding. All subsistence farming in these counties is on land with slopes of more than 20 per cent on which cultivation is not advisable.[12]

The facts of soil erosion permit of only one conclusion. Poverty and social deterioration set in when man fails to put the land to the uses to which it is best adapted. The wastage must be stopped if the South wants to stop the exodus of its sons and daughters. Only by holding the land can the Region hold is people. When a single storm can carry 39 tons of top-soil per acre[13] the time has come for positive measures to regulate and restrict land uses.

10. In its report, *Soil Erosion*, The National Resources Committee estimated the annual loss for the nation as a whole at $400,000,000. For a vivid account of soil erosion in Mississippi, consult the Mississippi State Planning Commission's *Progress Report, 1938*, especially pp. 29, 30, 94, 95, 97. The following passage is cited from that report:
    In the Big Black-Yazoo Watersheds are the most serious erosion conditions in Mississippi . . . . approximately *57% of the watershed area has already lost between one-fourth and three-fourths of the topsoil, and serious gullying is wide-spread.* It is estimated that more than 200,000 acres of agricultural land have been destroyed in gullying, and the situation is rapidly becoming even more serious. In addition to the area which has been damaged by erosion, large areas of once fertile bottom lands have been covered by sterile sand and silt from the highlands. Practically all of the lowlands within the hill section have been more or less injured by this silting, but by far the greatest damage is to the exceptionally fertile farm lands of the Mississippi Alluvial Plain ("Delta"). A large portion of the silt carried by the hill streams is deposited just below the point of entrance to the "Delta Section," and some of the alluvial cones built up have an apex twenty feet above the level of the surrounding land, and are 25 miles in linear extent. It has been estimated that more than 8,000,000 cubic feet of silt are carried into the streams of the Yazoo River system yearly, and during the one year in which observations were made, the Yazoo River at Greenwood carried more than 2,350,000 tons of silt.
11. In 1929 there were less than 8 million acres of crop land reported by the Census.
12. Summary of a statement in a TVA Report, 1938.
13. Part VIII of the Supplementary Report of the Land Planning Committee to the National Resources Committee, p. 35.

Erosion represents a peculiarly costly violation of the *principle* of *responsibility*. Unaided, private enterprise cannot stop the practice, because the control mechanism at its disposal, the system of competitive prices, cannot measure the indirect costs and enforce compensation. If it could, soil conservation would not be a social problem. The offender would soon be forced into bankruptcy and eliminated. Since it cannot, the state must intervene and lay down general rules regarding land use. These rules should be based upon the facts of soil, topography and climate. Their purpose is not to regiment but to short circuit the unnecessary wastes of the trial and error method of adjustment. They do not follow the dictator method of telling men what they must do, but rather the liberal method of telling them what they may not do. They confine men's actions within the limits within which competition and the price system can effectively function. They rule out only such activities as can be shown to sin against an essential principle of private enterprise.

Such is the philosophic and economic justification for state interference with the untrammeled right of a land owner to do what he pleases with his property. State legislators may properly hesitate to advocate measures of control that public opinion is not yet ready to understand. They need not be deterred, however, by shibboleths—like "the sanctity of private property," "the rights of private enterprise," "this is socialism,"—from advocating measures designed to promote popular recognition of the need for control. Only through wise controls and reasonable limitations on private rights can the regime of free enterprise be preserved in a world that is growing increasingly sceptical of the benefits of rugged individualism. Only by abandoning the right to abuse can a people preserve the right to use property according to the dictates of their own best judgment. Only by transferring limited powers of control to the state can they resist the pressure for the complete transfer of control to the state. Far more than our economic life may be at stake. If through our failure to set reasonable limits to private property rights we lose them

wholly to the state we may find that we have lost our political rights as well.

In this discussion of erosion we have explained the phenomenon as due to the distribution of land among many different owners. It was implied that the process would cease if the owner of the damaged bottom lands for example were also the owner of the uplands and the powerdam further down the valley. Certainly this unity of interests would favor conservation practices. It would not, however, assure them for two reasons. In the first place, present practices are part of the folkways which do not yield easily to rational considerations. In the second place, the shift to conservation practices frequently involves financial outlays beyond the capacities of present owners.

How then are these general principles to be translated into an action program? One thing is certain, the forces of destruction cannot be reversed over-night. They are rooted deep in the folkways of a people. What is needed is a goal and a long-run, consistent and resolute program capable of outliving the vicissitudes of party politics, and public assistance over a transitional period.

To this issue we shall presently turn. But first something must be said about the population which is dependent upon the Region's wasting natural resources.

Chapter III

THE SOUTHERN REGION: POPULATION TRENDS

THE economic welfare of a region depends upon the effective utilization of its underlying resources. These resources consist of (1) the people, including their health and their technical and political skills; (2) the quantity and quality of the natural resources of the area; and (3) of the artificial capital at their disposal. In an agrarian economy such as the one here under consideration, improvement or deterioration of living standards over the years turns primarily upon changes in the population-natural resource ratio, secondarily upon changes in the population artificial capital ratio. Rapid population increase in the face of a declining natural resource base would tend to lower living standards. The formation of artificial capital would have to proceed at an enormous and probably at an undesirable rate, to prevent deterioration. Wholesome regional development calls for a simultaneous and harmonious adjustment of all three factors and their effective combination. If the rate of population growth is not too rapid, if this population can be equipped with better skills and better health, if it can conserve, build up and utilize its natural resources more effectively, then the area can look forward to rising living standards. If in addition, alternative opportunities in the way of industry, commerce and recreation can be developed, the prospects will be all the brighter.

In 1940 there were just over 28 million people living within the Southern Region. This was some 10 per cent less than the total population of the United States in 1860, and almost three times the population of the area at the outbreak of the Civil War. This rapid

rate of growth was nonetheless well below that of the country as a whole. Only in the two great depression decades, 1870-1880 and 1930-1940, did the regional rate of growth exceed the national rate. During the '70's the lead amounted to 18 per cent; during the decade just ended it rose to 47 per cent. In periods of prosperity the lag ranged from 26 to 33 per cent.

It is apparent from the record that there has been a persistent tendency for population to move out of the region and that the rate of movement is directly related to the extent of employment in the non-farm segment of the national economy. Emigration rose and fell with the business cycle.

There have been significant differences between the states of the Region. North Carolina, for example, showed a lag approximately equal to that of the region as a whole prior to 1910. In that decade the lag narrowed slightly and then turned into a substantial lead over the national rate of growth—clear evidence that the remarkable industrialization of that state slowed down the rate of migration.

The persistent lag in the Region's over-all rate of growth has been due to a large and persistent out-movement from the area. Odum has shown that the percentage loss through migration rose steadily from 1900 to 1930. For Negroes the percentage loss of the three census dates 1900, 1920 and 1930 was 6.2, 10.4 and 20.6. The corresponding losses for whites were 10.3, 9.2 and 9.9.[1] The white migration tended to be stabilized around 10 per cent while the Negro exodus grew in magnitude from decade to decade.

The exodus began well before 1900. In Mississippi, for example, the net out-movement for whites began in the '70's, while that for Negroes did not begin until 30 years later. After 1900 losses were recorded for both races. Each census registered a greater out-movement of whites than of Negroes, but after 1910, due to a sharp falling off in the number of Negroes moving into Mississippi, the net loss of Negroes exceeded that of whites. According to the 1930 census, 27.4 per cent of Mississippi-born whites, and 23.5 per cent of Mississippi-born Negroes, were living outside the state—about one

1. Howard W. Odum, *Southern Regions of the United States* (1936), p. 484.

in four children born in Mississippi had found opportunities outside the state superior to those within the state.

As a result of the disproportionate out-movement of Negroes from the South, their proportion in the region's total population has been declining for some time past. In 1900 they represented 38.3 per cent of the population, in 1920, 33.1 per cent, in 1930, 30.7 per cent, and in 1940, 28.9 per cent. Due to the very low birth rate among Negroes outside the South, their natural rate of increase is now lower than that of the native white in the country as a whole. Between 1930 and 1940 the latter increased by 10.9 per cent in contrast with an 8.2 per cent increase among the Negroes. During this same period the growth of the Negro population in the greater South, as used by the census, was only 5.8 per cent, whereas it was 15.8 per cent in the North and 41.8 per cent in the West, despite the low birth rates prevailing among Negroes in those areas.[2] It is evident that the diffusion of Negroes throughout the nation continues unabated.

The migration picture during the 1920-1930 period, when the regional lag in the rate of growth was 26 per cent, has been well summarized in the National Resources Committee's *The Problems of a Changing Population:*

> . . . . urban areas absorbed more than 85 per cent of the total increase in population. The remainder was distributed through rural nonfarm territory, chiefly that adjacent to metropolitan centers. The net movement from farms, involving from 5½ to 6 million persons, exceeded the natural increase by more than one-third. Consequently the farm population sustained a net loss of more than one million persons during the decade.
>
> . . . . Every agricultural state except Oregon, Texas and Florida, lost by migration in this decade. . . . . The two main areas from which people were moving—the states south of the Ohio and Potomac Rivers and east of the Mississippi River, except Florida; and the states between the Rocky Mountains and the Mississippi River, except Arizona and Texas—each lost about 1,700,000 persons. (pp. 89-90)

For some seventy years population movements have evidently been one of the principal adjustment factors in the Region's econ-

2. The figure for 1940 are from 16. Census of Population. Release of Feb. 2, 1942, Series P-10, No. 2.

omy. A sudden compulsory cessation of this out-migration would disrupt the Region's social and economic structure as seriously as the abrupt blocking of emigration from Italy disrupted conditions in that country. The piling up of population, particularly in the rural areas, would be tremendous. It has been estimated that the population of the Southeast would increase by 25 per cent by 1960 if all migration ceased, in contrast with a 3.1 per cent increase if migration continued on the 1920-30 scale. Southern farm population would increase by some 62 per cent as compared with a decline of four per cent with migration continuing on the 1920-1930 scale.[3] It is obvious that the natural resource base cannot support such a population increase. Planning for soil conservation calls for planned migration if voluntary migration should prove inadequate.

The encouragement of migration from farm to city must continue to be sound public policy as long as the rural rate of population growth continues to exceed the urban rate. Similarly, the encouragement of out-movements from the Southern Region will continue to be sound public policy, as long as its natural rate of growth[4] continues to exceed that in the other populous regions. In 1930 the natural rate of population growth in the Southeast (10.2) exceeded that in the Northeast by 54.5 per cent, that in the Middle States by 41.6 per cent and that in the Far West by 229 per cent. Ten years later the differentials were even greater, 100 per cent, 54.5 per cent, with respect to the Northeast and the Middle States, but substantially less with respect to the Far West, 100 per cent as compared with the 229 per cent in 1930. Only the relatively sparsely settled Southwest and Northwest[5] exhibited higher rates of natural increase.

The rural South is the principal reservoir from which the country's future population is being recruited. The people in our cities,

3. Calculated from *Estimates of Future Population by States* (Washington, National Resources Committee, 1934) prepared by W. S. Thompson and P. K. Whelpton.
4. The natural rate is the difference between the number of births and the number of deaths occurring in a given period of time, expressed in terms of thousands of the population at the beginning of the period.
5. Calculated from data in Table 97, *Statistical Abstract of the United States, 1941.*

irrespective of the region, are not reproducing themselves. The phenomenal urban growth of the past 40 years is due almost entirely to the influx of new blood from abroad and from rural America. In the urban environment only the unskilled and semiskilled are reproducing themselves. The professional, business, and clerical groups wither. This tendency has biological implications that need investigation, but at least it opens up opportunities for members of the farm and the underprivileged urban groups to climb the ladder of opportunity. Here is another reason why public policy should aim at the promotion of occupational versatility in the lower income groups.

Admitting that out-migration has been desirable in the past, it does not follow that its continuation on the same scale in the future will be equally desirable. That it should not cease entirely, however, may be taken for granted. The desirable volume will depend upon improvements in methods of resource utilization, the emergence of alternative opportunities in the non-extractive industries and upon the future rate of population growth, within and without the region.

The natural rate is not very useful for predicting future changes. It disregards differences in the age composition of populations and it fails to take into account the known facts regarding child-bearing in the present generation of women of child-bearing age. The populations of two areas might show the same natural rates of growth over a short period and yet their longer growth trends might diverge markedly because of differences in age composition. If one were made up predominantly of young people, with the sexes evenly balanced, a very rapid short-period increase in population could occur, despite the fact that the number of children per marriage was below that necessary to maintain a constant population. If old people were heavily represented in the other area, the number of children per marriage would have to be very much larger to provide the same short-period natural rate of growth. This is one reason for the low natural rate of increase in the Far West.

For the purposes of comparison between periods and areas and for predicting trends, a more refined rate is needed. For prediction pur-

poses the ratio of children under 5 per 1,000 women of child-bearing age is useful. The child-bearing age usually selected is that between 20 and 44, although births occur before and after these limits. This is known as the indirect method of determining the net reproduction rate. It indicates with considerable accuracy how many daughters will be born "to the survivors of a group of 100 female infants during the course of their lifetimes if present age specific birth and death rates should continue unchanged. A rate of 100 would indicate that, on the average, the survivors of such a group of 100 would give birth to 100 daughters. Since these daughters would be just enough to replace the original cohort of mothers, the population would remain stationary .... in the next generation. If the rate were higher than 100, however, it would indicate that the population would increase from one generation to the next, and if it were lower than 100, it would indicate that the population would decline. All these assumptions are contingent upon the continuance of the same birth and death rates as those observed when the computation was made." [6]

The following table, based upon a five per cent cross-section of the 1940 census returns, shows that the United States is rapidly approaching the period when population growth will cease and in time give way to a decline.

TABLE II

NET REPRODUCTION RATES BY COLOR AND URBAN, RURAL-NONFARM AND RURAL-FARM RESIDENCE, UNITED STATES. 1940 AND 1930 [7]

Color and Census Year	*Total*	*% Change 1930-40*	*Urban*	*% Change 1930-40*	*Rural Nonfarm*	*% Change 1930-40*	*Rural Farm*	*% Change 1930-40*
All Classes								
1930	111		88		132		159	
1940	96	—13.5	76	—13.9	116	—12.1	136	—14.5
White								
1930	111		90		133		159	
1940	96	—14.4	76	—15.0	116	—12.8	132	—17.0
Nonwhite								
1930	110		75		119		156	
1940	107	— 2.7	76	— 1.3	115	— 3.3	154	— 2.0

A number of significant facts emerge from an examination of this

6. Quoted from 1940 Population Census. Release of February 21, 1941. Series P-5, No. 4.
7. 16. Census of Population. Release of Feb. 21, 1941. Series P-5, No. 4.

table. The net reproduction rate for the total population fell by more than one-eighth and is now below the level necessary to maintain a constant population. The decline was much sharper in the white than in the non-white population. The fertility of the urban population is now 24 per cent below the maintenance rate and the behavior of urban whites and non-whites is now about the same. This has been due to a 15 per cent fall in the net fertility rate of the whites and a 1.3 per cent rise in that of non-whites. The sharpest decline (17 per cent) was registered by the white rural-farm population. The decline for the corresponding non-white group was insignificant (2 per cent). The decline for the rural-nonfarm group was the least and here again the discrepancy between the white and the non-whites was marked. The American farm is still the great reservoir from which the future population of the United States is drawn. This reservoir is drying up rapidly, however, and the proportion of non-whites in this group exhibits a tendency to increase. Within the Southern Region the persistence of this tendency can produce a marked change in the racial balance in the farm population, unless Negroes continue to migrate in disproportionate numbers to urban areas, within or without the region, where their fertility rates correspond with those of the whites.[8] Meantime population growth as a whole is rapidly slowing down.

If complete exclusion of foreigners should become the accepted policy of this country, it appears probable that the population will reach a peak sometime between 1960 and 1980. The peak might indeed come even earlier if the downward trend of the net reproduction rate continues unabated. The population peak for the Southern Region will come somewhat later than that for the country as a whole, because of the greater importance of the farm element in its population composition. In the absence of inter-regional migration, the rate of population growth in the Southern Region would continue to exceed the national rate much as it did during the 1930s. Even after further population growth ceased in the Region

8. To date, as indicated on page 55 above, the relatively greater out-movement of Negroes from the rural South has more than offset this tendency.

its proportion of the total population would continue to increase due to the absolute decline in numbers in the more highly urbanized and industrialized parts of the country.

For at least a generation to come the Southeast promises to be the great population reservoir to which the whole country must look for any further growth. Less than five per cent of the total number of counties in this area had net fertility rates (1929-31) below or within the 50 point range within which their state maintenance rates fell. By way of regional contrast, just one-half of New York's counties fell below the state's maintenance figure. Those which fell furthest below it were, of course, the great urban counties where the bulk of the population resides: New York County, 253, Bronx, 350, Albany County, 353, Westchester, 365, Duchess, the President's county, 387. The rate for the state as a whole was 372 or almost 16 per cent below the maintenance level (442). The net fertility rates for all the Southern states are well above their maintenance levels, the range being from 56.3 per cent for North Carolina to 5.8 per cent for Florida, with Arkansas occupying the median position with a fertility rate of 39 per cent above its replacement rate. Moreover the range is substantially smaller for New York than for the states of the Southern Region. New York, with a population almost half as large as that of the entire Region, had a spread of only 390 points, from 253 to 642 while the range within the Region amounted to 920 points, from 335 to 1255. In over seven percent of the counties in the Region population would double in a generation in the absence of migration, whereas, in New York state, the county with the highest fertility rate showed an excess of only 45 per cent above the state maintenance rate.[9]

The state maintenance rates cited above represent the number of children under 5 per 1,000 *white* women aged 20-44 necessary to maintain a stationary population on the basis of conditions prevailing 1929-1931. The actual fertility rates, 1930, on the other hand cover the *entire* population. They therefore exaggerate somewhat the difference between New York and the Region because of the

9. Calculated from data in *Estimates of Future Population by States, op. cit.*

fact that the mortality rates for the colored population in the South are higher than for the whites. Thus for Mississippi, for example, the crude death rate in 1931 was 8.7 for whites and 14.2 for Negroes.[10]

Even with this qualification regional differences in the natural rates of population growth are very considerable. In a recent report the National Resources Planning Board commented upon this fact as follows:

> In about one-half of the country, comprising more than 60 per cent of the total population, as soon as the relatively large proportion of the population now in the child-bearing ages passes into the older age groups, the number of daughters born will not be sufficient to maintain the parent generation, even if there is no further decline in fertility. The group of states with low reproduction rates extends from southern New England westward through the states of the Middle West and north of the Ohio River, until it reaches Kansas, Nebraska and Colorado. The Pacific Coast states and Florida complete the group. . . . . All the highly urban and industrial states are included.[11]

This growth differential will disappear in the course of time. In the near future, however, it seems more likely to increase. If serious disequilibrium is to be avoided, there must either be a steady movement from the rural South to these extra-regional urbanized areas to make good this natural population depletion, or a considerable migration of industry to the areas where the natural rate of population growth is the greatest. To date the adjustment has occurred primarily through population movements from the rural counties to the industrial and commercial counties. During the decade of the 1920s there was a net movement of close to six millions from farm to city. If there are natural advantages which tend to keep industry and commerce in the places where they have been concentrated for the past 50 years, then this steady one-way movement must be regarded as the necessary price the agrarian states have to pay for the "biological robustness" of their people. Low incomes in these areas, much as they are to be deprecated on social and humanitarian grounds, have a functional significance which cannot be entirely disregarded. They serve to keep population moving to the areas

10. Paul Foreman, *Mississippi Population Trends*, p. 76.
11. *Problems of a Changing Population*, p. 122.

of industrial concentration to take the places left vacant by the failure of the people there to maintain their numbers. If the flow stopped, the disparity in real incomes would be even greater than at present and very soon the growing pressure on the resources of rural America would lead to still more serious soil erosion than that which even now gives cause for national concern.

How great these regional differences in incomes have been in recent years may be seen from the following table:

TABLE III

AVERAGE ANNUAL PER-CAPITA INCOME BY REGIONS, 1929 AND 1939 [12]

	General Average		*Average for Nonfarm Population*	*Average for Farm Population*
	1939	*1929*	*1929*	*1929*
United States	$521	$750	$908	$273
Northeast	627	881	946	366
Middle States	709	715	854	262
Northwest	463	590	703	426
Southeast	304	365	535	183
Southwest	381	564	683	366
Far West	678	921	953	818

Still assuming for the moment that the present industrial pattern is "natural," the enormous 1929 differential between the income of the farm population of the Southeast ($183) and that of the nonfarm population of the Northeast ($946) would indicate that migration had been insufficient or else that the immaterial satisfactions of the rural way of life provided unsuspected compensation for the material privations which these figures reveal. Since the exodus from the Southeast has been large for decades past it seems probable that the immaterial rewards were not regarded as adequate compensation and that an even larger out-movement would have been desirable.

These population trends indicate that planning in each of the great regions of the United States needs to be related to prevailing regional net reproduction rates. In the older industrial parts of the

12. Figures for 1929 are taken from N.R.C., *Changing Population*, p. 43, and are based on estimates for separate states, in *America's Capacity to Consume*, Brookings Institution (1934); those for 1939 were calculated from data in *The World Almanac and Book of Facts*, 1942 (New York World-Telegram), p. 520.

country, and in urban areas generally, measures may have to be taken to improve the city as a place to bring up children. We shall examine later the arguments for subsidizing low income groups in the large city as against those for encouraging decentralization. To anticipate, our own conclusion is that planning for decentralization will prove more constructive both from the national point of view and from that of the South. For several decades to come, however, planning for the South will have to face the fact that continued out-migration will be desirable.

The more the Southern Region can provide alternatives to farming and mining, the smaller will this out-movement have to be. Since these alternatives call for population concentration as compared with the scatter characteristic of agriculture and forestry, urbanization trends provide some evidence as to the extent to which such alternatives are in fact emerging.

Urbanization developed rapidly during the troubled Reconstruction period. Since 1900 the regional rate of growth has been more rapid than the national rate. Only the Southwest and the Far West showed more pronounced trends. During the 30 year period 1900 to 1930 the Region's rate of gain exceeded that of the nation by 42 per cent: during the decade of the '20s by 45 per cent and then during the depression '30s by 143 per cent.[13] The percentage of urbanization for the Region as a whole rose from 15.3 to 32.1 between 1900 and 1940. The corresponding percentages for the United States as a whole were 40 and 56.5. At both dates Mississippi was the least urbanized state in the Southeast, 7.7 per cent and 19.8 per cent respectively. In 1900 Louisiana was the most urbanized (26.5 per cent). In 1940 it stood second from the top (41.5 per cent) being surpassed by Florida (55.1 per cent), which can no longer be regarded as a typical Southern state.

The population of the Southern Region like that of the nation is becoming older. This tendency will increase as voluntary restric-

13. Calculated from Walter J. Matherley, "The Urban Development of the South," in *The Southern Economic Journal*, Vol. I, No. 4 (February, 1936), Table 2, p. 5, for the period 1900-1930 and from *Statistical Abstract of the United States*, 1940 (Bureau of the Census), Table 9, p. 7, for the period 1930-1940.

tions on births reduce entry into the population and improved medical care increases the prospects of survival to old age. Since 1820 the median age of the entire population has risen from 16.7 to 28.9 years. The proportion in the productive and non-productive age groups has undergone marked changes. It is a rough approximation to the facts to regard the 20-64 year age group as "productive" and those below and above these limits as the non-productive or dependent group. Between 1930 and 1940 the productive group increased from 55.9 per cent to 58.7 per cent of the total. The absolute gain was over three times as great in the 45 to 64 year age group (2.3 per cent) as in the 20 to 44 year group (0.7 per cent). The percentage in the under-20 years group fell from 38.7 to 34.5, while the 65 year and over group increased from 5.4 to 6.8 per cent.[14]

The dependency ratio is declining less rapidly in the South, however, than in the nation as a whole. Nonetheless the real burden of dependency in the Region may not be much greater now than it is in the more urbanized and industrialized parts of the country because of the well known fact that an agrarian economy makes productive use of its youth at an earlier age, and that the effectiveness of its elder people continues longer.

Before leaving this topic something needs to be said about the region's large Negro minority. The presence of this racially very distinctive group renders more difficult the solution of practically every regional issue. The majority of Southern Whites regard this as a white man's country and are determined to maintain "white supremacy." The experiences of the Reconstruction era are still vivid in their memories. National interventions arouse deep emotions which play directly into the hands of demagogues who, by definition, are masters of the art of playing on emotions. This means that to a very considerable extent the solution of the Negro problem in the South must be solved by the Southern leaders of the two races. White public opinion regards this as a local problem.

The issue, of course, is not just local or even regional. It is na-

14. 1940 Population Census. Series P-5, No. 1.

tional and international. The northward migration of the Negro has diffused the race problem into every community into which he has penetrated in any numbers. The plight of the Negro is not a happy one in any part of the country. Segregation is a fact wherever Negroes are found in any substantial numbers. The issue is at once national and international in the sense that the way in which it is handled in any part of the United States affects our standing in the world at large. The American Negro problem has become part of a much larger racial issue on which the fate of Western civilization may well depend. Hitler has used the issue in its Jewish aspect to create internal dissension and confusion in Europe. This dissension and confusion are as much instruments of his amazing military victories as is the disciplined, coordinated and equipped might of his armed forces. Japan is using the issue of "white supremacy" in its campaign in the Far East, even making references to the white man's treatment of the Negro in the United States. The failure of the enormous manpower under allied colonial dominion to give themselves wholeheartedly to the cause of the United Nations has given Japan a series of comparatively easy victories, and has imposed upon the whites in the allied camp enormous sacrifices, and is destined to impose ever greater sacrifices before the Japanese threat is removed Success in the Far East appears to depend upon the ability of allied leaders to convince the nonwhites there that an allied victory is not to be the prelude to another long era of white supremacy. The titular leaders of the Democratic and Republican parties in the United States have both made statements designed to allay this fear. President Roosevelt has declared that one of the aims of the present war is freedom and democracy for all, without regard to race, color or creed. Wendell Willkie has said that "the day is gone when men and women of whatever color or creed can consider themselves the superiors of other creeds and colors." [15]

15. Earl Brown and George R. Leighton, *The Negro and the War* (Public Affairs Pamphlet, No. 71, 1942). Perhaps Pearl Buck has analyzed this aspect of the problem more pointedly than any other white writer. See especially her letter to the editor of *The New York Times,* November, 1941, and widely distributed, with a foreword by Mrs. Roosevelt, by an organization entitled "Common Council for American Unity."

America's treatment of its own Negro minority may thus affect the duration of the present war and help determine whether an allied victory is to open up the possibility of a long period of peace in a world of nations of limited sovereignty enjoying mutual respect and reasonable equality of opportunity, or is to be the prelude to a catastrophic world struggle between the white and the non-white races.[16]

How can the South's insistence upon solving its Negro problem in its own way and its own time be respected in view of this larger and graver aspect of the problem?

In this section it is proposed (1) to submit some evidence regarding the status of the Negro in the South; (2) to analyze the economic consequences of the presence of an underprivileged racial minority in a social group; and (3) to suggest a formula which may prove helpful in solving the problem.

The Status of the Negro in the South[17]

The educational opportunities accorded the Negroes are less than those accorded the whites. Negro children have an average school term six per cent shorter than the average for white children. The average per capita school expenditure for Negro children is only 38 per cent of that for white children. The salaries of Negro teachers average 64 per cent of those of white teachers. It is probable that the quality of the instruction is inferior despite the fact that almost as large a proportion of the Negro teachers (88 per cent) as of the white teachers have had two or more years of college training. Negro colleges in the South on the average are certainly inferior to those attended by whites. It is particularly difficult for Negroes to

16. cf. the warning by Lin Yutang read at a meeting of the League for Industrial Democracy. *The New York Times,* May 10, 1942.

17. The information under this heading is nothing more than a running summary of facts taken from a mimeographed copy of selections from a study later published as *Socio-economic Approach to Educational Problems,* Misc. No. 6, Vol. I (Fed'l Security Agency, U. S. Office of Educ'n), Washington, 1942. The author, Ina Corinne Brown, is a Southern woman. The states covered by her survey include all those in our Southern Region plus Delaware, the District of Columbia, Maryland, Oklahoma and West Virginia. Her statistics cover only counties having 5 per cent or more of the population Negro. The present tense will be used throughout unless there is reason to believe that the facts no longer reflect present conditions. Interpretative comments are the author's.

obtain in the South professional training comparable to that available to whites, and in their subsequent careers professionally trained Negroes are handicapped. Local libraries are usually closed to Negro lawyers. "Negro physicians are not generally permitted the use of hospitals and seldom are able to avail themselves of the usual consultation service of other doctors." Except within his own group, opportunities for white-collar and skilled occupations are severely limited, and the general poverty of the Negroes as a group necessarily reduces the importance of the exception. In 1935-1936, according to the National Resources Committee's report on Consumer Incomes, the average income of Negro non-relief families in Southern rural communities was $566 compared to $1,535 for the corresponding category of whites. In Southern cities the corresponding averages were $635 and $2,019.

Despite lip-service to the principle of non-discrimination, organized labor, particularly the craft unions, in the South as in other parts of the country, discriminates against the Negro. A recent official occupational survey for the country as a whole revealed the extent to which Negro workers were piled up in the unskilled categories: 2.1 per cent of the Negroes were in the professions as compared with 7.2 per cent of the native born whites; 1.5 per cent were classed as clerks and kindred workers in contrast with 20.2 per cent of the native born whites so classified. The corresponding percentages for skilled workers and foremen were 3.2 and 13.3; for semi-skilled workers 9.4 and 16.5. More than three times as many Negroes as native born whites were classed as unskilled, 66.9 per cent as against 21.9 per cent. The percentage of Negro proprietors, managers and officials (16.9) compared favorably with that of the whites (21.0), due probably to the fact that there are a substantial number of small farm owners among the Negroes.

That limited opportunities for Negroes is not an exclusively regional phenomenon is strikingly revealed by the findings of a recent (January, 1942) survey of Negro employment, undertaken by the United States Employment Service. The survey showed that just over one-half (51 per cent) of 282,245 openings studied

were barred to Negroes as a matter of policy, and that there were only minor differences in hiring policies in the North and the South.[18] That this discrimination is not entirely due to lack of education and ability is suggested by a small study of Negro waiters in the Pennsylvania Station, New York City. In a group of thirty, twenty had college degrees, including six Ph.Ds.[19] There is no need, however, to multiply evidence. It is pretty generally admitted that the differentials in incomes between Negroes and whites is very large and cannot be entirely accounted for by possible differences in innate abilities.

It should be added that this picture is defective in that it does not reveal trends. With respect to education, for example, the situation is far better than at the turn of the century when Booker Washington remarked, "Too much is expected of the Negro boy, bright as he is, if the white man expects him to learn as much in three months as the white boy learns in nine."[20] On the other hand, the growing pressure for jobs in the South appears to have led to a gradual transfer of certain typically Negro occupations to whites. Bellhops and waiters in hotels and restaurants provide a recent example. Even earlier, whites ousted Negroes from barbering.

The Economic Consequences of Race Discrimination in the South

A number of significant consequences appear to follow from race discrimination.[21]

(1) The total income of the society will be less than that which

18. Brown and Leighton, *The Negro and the War*, p. 11.
19. Figures submitted by Dr. J. Stewart Burgess of Temple University at the League for Industrial Democracy, Inc., meeting referred to previously. *The New York Times*, May 10, 1942.
20. Quoted in National Policy Reports. No. 6. *Report of the Second Mid South Citizenship Conference National Policy Committee.* Washington, D. C. 1942, p. 17.
21. It should be emphasized that race discrimination is not a peculiarity of Southern whites. It exists with only differences in degree in every other part of the United States. From all accounts the position of the Negroes and Indians in British South Africa is much worse. India itself provides further tragic testimony to the same effect. The Dutch, reputed to have one of the world's most enlightened colonial administrations, appear never to have conceived of developing a fighting loyalty for Dutch institutions among the millions of non-whites in her rich island possessions. Our own record in the Philippines reveals the fact that a colonial people will fight heroically alongside of the white man when they have faith in the promise of ultimate equality.

could be realized if there were no discrimination. This is due to the fact that individuals, who are prevented by discrimination from attaining the jobs requiring the use of the rarest skill which they are capable of mastering, cannot make their maximum contribution to the social dividend. It has already been argued that the Liberal State may properly invest considerable sums in the education of the underprivileged, designed to discover and bring into effective use such skills as poverty threatens to crush out. Until equality of educational opportunity is available to the Negro it cannot be known to what extent society is losing the full productive potential of this portion of the labor supply. It is our assumption that the loss is considerable and that the main incidence of the loss falls upon the people in the area where the bulk of the Negro population resides.

(2) The total income of the society will be more unequally distributed if there is discrimination than in the absence of discrimination. Discrimination increases the competition for the most poorly paid jobs and reduces it for the better paid jobs. The spread between high and low in the wage structure is widened. Discrimination thus reinforces the institution of inheritance as a force tending to cumulate inequality over time and to a greater degree than can be accounted for by differences in inborn capacities. For too large a proportion of the American people the American ideal of equality of opportunity has become a myth. Constructive equalization, as has been indicated earlier, calls for positive measures to lessen the severity of the competition at the bottom by identifying those at the bottom who are capable of mastering rarer skills, by equipping them with these skills according to their several abilities, and by seeing to it that access to jobs requiring these skills is not blocked by artificial barriers. Monopolistic business practices and trade union restructions have already been characterized as barriers to occupational mobility. The white man's attitude toward the Negro must be reckoned with as a further barrier and one much more difficult to overcome. In the terminology of the sociologists this attitude belongs to the mores of the dominant group. Hence laws are of little avail because their enforcement requires such an

expensive deployment of force as to negate the economic advantage of the objective. Moreover the solution by law, in advance of popular understanding, blocks the processes of education and persuasion. In areas of human behavior in which the mores operate a substantial majority must be convinced of the desirability of change before it is wise to invoke the compulsions of law.

(3) In a society in which a minority is exposed to discrimination the competition of the minority tends to be concentrated upon those members of the dominant group who are at the bottom of the economic ladder. If the discrimination is severe, and the blockage of talents in the subordinate group is substantial, the position of the underprivileged in the dominant group can become very difficult. Employers will frequently find that, job for job, in occupations requiring little skill, members of the subordinate group are to be preferred. To the underprivileged in the dominant group this situation will seem intolerable. They are apt to invoke the principle of race superiority to protect themselves against the results which the attitude of the group as a whole has brought down upon them. Race prejudice is likely to be most articulate and most dangerous at this level. The converse is apt to hold for those in the dominant group at the top of the economic ladder. They enjoy the maximum protection. They are likely to be tolerant of the aspirations of the subordinate group for greater equality of opportunity but also content with slow progress.

(4) Those at the top of the subordinate group will experience the maximum sense of frustration They realize most fully the fact that the door of opportunity is not really open to talents. From their midst are apt to come revolutionary counsels. In these difficult times it is important that the leadership in minority groups should not link up with elements hostile to democratic institutions. It is unfortunately true today that the communists in the United States are the only group that really practices as well as preaches the doctrine of racial equality. The white man's treatment of Negroes makes them ideal materials for communistic propaganda. It would be interesting to know, for example, the social and political views

of the twenty Negro waiters with college degrees to whom reference was made a few pages earlier.[22]

(5) The upward equalization of educational opportunities for a subordinate group can only complicate matters if it is not accompanied by a corresponding broadening of job opportunities. Education without opportunity is education for revolution.

If these are the consequences of racial discrimination, it follows that either the upward trend of educational opportunity for the Negro should be reversed or that the doors to job opportunities should be opened much more widely than at present. Needless to say, the denial of educational opportunity to this group is too inconsistent with American ideals to deserve consideration. On the contrary, the trend is clearly in the direction of greatly increased support of education for all economically underprivileged groups. Opportunities must be correspondingly widened for all of them if the American faith in education is not to end in national disaster.

Equitable Segregation

The solution of the Negro problem in the South is complicated by lack of agreement as to a formula. Many extra-regional students of the cause of this underprivileged group see eventual amalgamation as the only permanent solution. Except for a few extremists, the adherents of this school of thought are prepared to go slowly, providing there is real progress from year to year. They regard this "patience" as evidence of their realism and statesmanship. Only clear evidence of a trend toward equality, they argue, can prevent the extremist from gaining the upper hand and forcing a rate of change too rapid for the Southern mores. They urge Southern white leaders to cooperate with them in removing the external and hence humiliating stigmata of inferiority, such as the Jim Crow cars on the

22. At a recent meeting of the Colloquium (Nov. 9, 1942) of the Institute of Research and Training in the Social Sciences, Prof. Robert E. Park, the eminent Chicago sociologist now at Fiske University, expressed great scepticism regarding this point. He feels 1) that there are abundant opportunities for able Negroes within their own race and 2) that a reasonable degree of frustration is good for any group. It develops a group consciousness which draws the group forward more rapidly than they would go forward in an environment of complete toleration.

railroads and the corresponding sections in the urban busses, the separate waiting rooms for Negroes in railroad stations, the exclusion of Negroes from hotels, etc. When moderate Southern white leaders balk at such proposals, they conclude that the South is bereft of statesmen in this area of human affairs.

The trouble is, of course, that Southern whites look beyond the concrete measures under discussion for the ultimate goal. If amalgamation is the ultimate goal, they will oppose reforms which to an outsider appear entirely reasonable. As long as amalgamation is set up as a goal, segregation and subordination will be set up in opposition and the white majority in the South will be found solidly behind that goal.

This deadlock cannot be broken with the consent of Southern whites until amalgamation is frankly discarded as the ultimate solution of the Negro problem in the South. It is greatly to be hoped that it will be discarded for it is an unworkable and unrealistic formula. Racial lines appear to be about as distinct now as at any previous period in recorded history. It is hard enough to assimilate culturally distinct groups within a single race—witness the French in Canada, the German enclaves in Southeastern Europe and the Baltic provinces, the Hungarians, the Czechs and the Irish. None of these cultural subgroups wants amalgamation.

Even less do the distinctive groups popularly known as races want amalgamation. What they want is what cultural subgroups want, namely cultural autonomy. What they resent is any implication of inferiority. Removal of the stigma of inferiority will do more to promote the peaceful living together of this mosaic of races and groups than a century of preaching of amalgamation. The latter is a glacial process little, if at all, susceptible to social controls. The task ahead will not be solved by denying differences, but by recognizing them and treating them as differences in kind and not in excellence. Young people must be educated to this concept. They must be taught that the principle of equity can be applied to groups within as well as to groups outside the national frontiers.

Professor Bronislav Malinowski has used the term "equitable

segregation"[23] to describe this approach to the Negro problem and has endorsed it as offering the greatest prospects of an early amelioration of the status of the Southern Negro. Just what are the implications of the phrase?

Frank acceptance of the principle will help to break down the psychological obstacle to reform from within the South. Many vexatious and humiliating features in the present situation can be removed if it is clear that the end goal is the establishment of equality of opportunity between two distinctive groups and not an attempt to blur the obvious distinctions between the groups. It thus permits of progress without a frontal attack upon the existing mores. It does not call for the abolition of separate cars for Negroes on railroads, or for separate schools, or separate waiting and rest rooms in railroad stations and buildings open to the general public. But it does call for cars, adequate in number for the needs of the Negro population and every bit as good as those provided for the whites; for rest rooms in public buildings comparable to those available to the whites. It does not mean that whites and Negroes should be mingled in the same school buildings but that the buildings provided for the Negroes should be as good as those provided for the whites in the same school district and that the education should be as excellent and as appropriate to their occupational prospects[24] as that available to the white children. It does not require that the vote be indiscriminately and immediately accorded to every Negro but it does imply that reasonable restrictions on voting shall be honestly and equitably applied to whites and Negroes alike. It does not necessarily involve the indiscriminate employment of Negroes and whites side by side in public and private business, but it

23. Professor Malinowski used this term in discussing the Negro problem with a small group of my students just a few weeks before his untimely death. I take this occasion to acknowledge my indebtedness to him for much that appears in this section. The implications of the phrase are mine, however.

24. This phrase is not to be interpreted as a defense of the proposition that Negro education should be directed exclusively to fitting him for his present lowly position in American life. But it does mean that some attention should be paid to the fact that opportunities for Negroes are not limitless. Publicly supported education for whites and Negroes alike always runs the risk of developing attitudes and expectations in the rank and file of the ungifted that cannot be realized in adult life. Such education is education for frustration.

does imply that management will use its ingenuity to devise ways and means of opening up to Negroes every occupational category for which they can demonstrate the requisite capacities. Tact and firmness can accomplish much. For example, the Lockheed-Vega Aircraft Corporation, "after some hesitation determined to experiment with Negro labor in one of its plants. It got ready very carefully by going over the plan with its foremen. In the summer of 1941, each one of Lockheed's many thousand white employees was given a statement of the company's intention. Presently the introduction of Negroes into the plant began, and now several hundred are employed there." [25] If our economy can be kept operating at something approaching full employment, the white man's objection to working beside the Negro may be expected to decline. The present acute shortage of manpower makes this a favorable time to experiment.

The principle of "equitable segregation" does not call for the breaking down of segregated residential districts in our cities of tomorrow; but it does call for the provision of wholesome residential districts for Negroes equal to those available to white groups of comparable incomes.[26]

In brief, the principle of "equitable segregation" justifies the maintenance of the dual institutions which have been so severely criticized outside the South and which admittedly bear so heavily upon the inadequate resources of the South. The shabbiness of the facilities available to the Southern Negro is due more to the poverty of the South than to the callousness of the whites toward the Ne-

25. Quoted from Brown and Leighton, *The Negro and the War*, p. 17.

26. Compare the following statement by Charles S. Asher in *Better Cities*. A National Resources Planning Board pamphlet (April, 1942), page 8:

"One other principle should serve as a guiding idea in our large-scale rebuilding: we must avoid a pattern of stratification, whether by incomes, occupations, or otherwise, which will produce self-contained colonies either of manual laborers or intellectuals or enterprisers, which will perpetuate areas marked as the exclusive preserve of persons of one language group or national origin. The challenge to our city rebuilders is to provide the opportunity for free mingling of all groups in our democratic society, without forcing a drab uniformity or the loss of those cultural diversities that have enriched our urban, indeed our national, life."

This idealistic principle can easily be pushed too far. Artificial measures designed to scramble together in intimate neighborhood living culturally and racially distinctive groups is likely to do more harm than good.

groes. When there is not enough to go around it is utopian to expect the dominant group anywhere to deal with complete equity with a subordinate group. There has not really been enough to go around in the South since the Civil War. Against that background of persistent poverty the discrimination against the Negro is humanly understandable. The real progress which the Negro race has made is at once evidence of its potentialities and of the essential willingness of Southern whites to assist in its upward climb to status and self-respect.

Yet the times are critical and the rate of climb may have to be quickened if serious racial conflicts at home and in the post-war world are to be avoided. For the principle of "equitable segregation" to bear early fruit the general level of income in the South will have to be considerably higher than at present. Only in a prosperous South can the Negro and the white man live together harmoniously. As the dominant group the whites have the major responsibility for effecting the necessary adjustments. Fortunately it is in their own self-interest that they make the adjustments for the South cannot be really prosperous until its Negro population is permitted to make its potential contribution to the region's wealth.

This brings us once again to our central problem: What can be done to improve economic conditions in the South? What may the South reasonably expect of the nation in the way of help? What may the nation reasonably expect of the South in the way of self-help? We shall attempt to answer these two questions in reverse order, but first it is necessary to attempt an answer to this question: Can the people of the South and of the nation agree upon a goal that is reasonable from both the national and the regional point of view? The next chapter is devoted to this question of goals.

Chapter IV

PROPOSED GOALS FOR THE SOUTHERN REGION

PRELIMINARY Remarks: The title of this chapter raises a debatable point which can be expressed in the form of a question: Has the economist, as an economist, any competence to establish goals? Does he not abuse his title and disserve his profession by pretending to pass on the relative merits of the varied "plans of men"?

Those who would answer the question in the affirmative argue that the economist should confine himself to the technical job of predicting the consequences of particular measures. Will or will not particular measures promote the realization of specified goals? If, in addition to answering such questions, the economist can suggest economical means of arriving at given goals, he will have made a substantial contribution to intelligent planning. In attempting to do more, it is argued, he will only destroy men's confidence in his ability to do the one thing he can hope to do. According to this view, the economist is a technician whose task is to assist in drawing up the detailed specifications for a structure capable of serving predetermined ends. In brief, the economist is a social engineer, not a social architect.

The crucial question then is this: Does the economist abdicate as a scientist when he aspires to be an architect? Put thus, the question provides an escape from the dilemma which always confronts the economist as a man and a scientist. As a human being he cannot be and is not indifferent to the course of events. He has his likes and dislikes, his preferences, his pet aversions and his loyalties. As a scientist, the first of his loyalties must be to science and the

scientific method. What this phrase means has been eloquently expressed by Raymond B. Fosdick:[1]

"Science is more than the technologies which cluster about it—more than its inventions and gadgets. It is even more than the discovery and correlation of new facts. Science is a method, a confidence and a faith. It is a method of controlled and rechecked observations and experiments, objectively recorded with absolute honesty. It is a confidence that truth is discoverable. It is a faith that truth is worth discovering."

And in connection with the Social Sciences Mr. Fosdick adds:

"The assumption has to be made that there is time for intelligence to take hold, that the world of the future will still be *a free world* in which reason rather than force will control. This assumption may be a leap of faith, but it is only through faith that men will find courage to face, with what intellectual tools they can devise, the towering obstacles ahead."

Science and freedom are inseparable. The economist cannot be true to science unless he is free—free to speculate, to criticize, to compare and to predict, for prediction is the end goal of science. Freedom is one of the few absolutes which the scientist must recognize. At any rate we accept it as our working hypothesis. It justifies, in our opinion, the inclusion of goals within the sphere of competence of the economist.

We interpret freedom in the individual, not in the nation sense in which German National Socialists use the term. It is part of our hypothesis that the welfare of all can only be realized by respecting the individuality of each member of the community. The purpose of social groups is to assist the individual in the legitimate expression of the myriad drives for self-expression through which alone individuality can be realized. The qualifying word "legitimate" is necessary because self-expression by one individual can diminish as well as heighten the opportunity for self-expression by others. With individual rights go corresponding duties. One of the important functions of the state is to keep rights and duties in balance, in order that the sum total of human freedom may be at a maximum. This maximization cannot be realized if the individual is the pawn

1. Raymond B. Fosdick, *The Rockefeller Foundation*, A Review for 1940, pp. 43, 51. Italics added.

of a super-state. In a regime of freedom the purpose of the state must be to carry out the freely expressed wishes of its citizens. These freely expressed wishes can only be determined by establishing and preserving democratic processes.

It is thus a further part of our hypothesis that fidelity to science implies fidelity to the democratic way of life as the only guarantee of an environment essential to disinterested enquiry. For the reasons already set forth in the opening chapter on planning, we go a step further and assert that fidelity to science implies, at the present stage of human development, fidelity to the system of free private enterprise. Admittedly this is an hypothesis which cannot be proved with the finality of a laboratory experiment. Theory and history alike give it, at any rate, a high probability value. To our minds, it justifies those economists who, while undertaking to pass value judgments in terms of "good" and "bad" upon the plans of men, yet claim to remain within the bounds of science.

Nevertheless there are very definite limits which the scientific economist must observe. He may not, for example, rest his conclusions regarding policy upon his private predilections regarding one way of life as against another, unless in his judgment, survival of the democratic way of life is involved. Thus, to come down from the realm of abstractions to an issue with which this whole study is vitally concerned, we do not see that the economist can pretend to settle the issue of *agrarianism versus industrialism* as a way of life, despite the fact that the shape of the Southern society of the future is intimately involved. All that he can do in planning for the Region is to stress the importance of keeping the way open for the people to realize the goal they really prefer. While this modest task can have little appeal for the reformer who *knows* what the people should want, it still leaves to the economist an honorable and useful role.

There are at least three well defined schools of thought regarding the future of the South: (1) An *agrarian school* which distrusts industrialism and urbanism and looks forward to an expansion of the agricultural segment of the American economy and to a South es-

sentially rural and agricultural but freed from its present allegedly "colonial" dependence on the Northeast; (2) a *national-industrial* school which predicts a further decline in the importance of agriculture but with a continuation of the present regional specialization. In the language of the agrarians, this school accepts the perpetuation of the present "colonial" agrarianism in the Southern Region; (3) a *regional-industrial* school which favors and foresees the transformation of the Southern Region into a modern industrial empire. It shares with the agrarians the suspicion that the South is "colonial" and with the national industrialists the conviction that extractive industries are destined to decline further in their relative importance.

The Agrarian Thesis. There are many nuances in the views of the Agrarians. Two proposals will be considered here. The first, which may be called that of the Southern Agrarians, is associated with a group of twelve Nashville writers who formulated their views in *I'll Take My Stand: the South and the Agrarian Tradition,* a book published in 1930 and already out of print.[2] The second finds effective expression in *Rural Roads to Security*[3] which appeared in 1940. Ligutti and Rawe, the authors, are Catholic priests and professors at the Creighton University. The national-industrial thesis finds its fullest exposition in *Migration and Economic Opportunity*[4] by Carter Goodrich and Others, which appeared in 1936 under the auspices of the Social Science Research Council. The regional-industrial thesis finds frequent echo in the releases of Southern Chambers of Commerce, in the speeches of Southern politicians and in the editorial columns of innumerable Southern newspapers. The *Manufacturers Record,* published in Baltimore, may be regarded as representative of the views of this school.

The Southern Agrarians are in much greater agreement about their likes and dislikes than about ways and means of getting rid of

2. Published by Harper & Brothers. New York, 1930.
3. L. G. Ligutti and John C. Rawe, *Rural Roads to Security: America's Third Struggle for Freedom.* (Milwaukee, 1940.)
4. Published by the University of Pennsylvania Press. Philadelphia, 1936. Permission to reproduce passages from this book has been kindly granted by the publisher.

the things they dislike and of bringing to pass the things they like. Essentially theirs is a protest against the materialism of an age which measures men and occupations in monetary terms, against a society which accepts the primacy of economic motivations "in human considerations." [5] They are anti-industrial because they are convinced that industrialism imposes a soul-destroying mechanistic pattern upon human life in defiance of the fact that the natural pattern is essentially biological. The agrarian way of life is the biological way of life. They are democratic in the Jeffersonian sense. They hold that democracy, as we know it in this country, is a product of the frontier and that it will disappear with the disappearance of widely diffused and responsible ownership of productive property. Farm land is *par excellence* the most desirable form of productive property. They deny to life insurance, stock certificates, old age annuity claims, etc., the substitutional virtues sometimes claimed for them by members of the industrial schools of thought.

It is not entirely clear just how far the Southern Agrarians would carry their hostility of industrialism. "The agrarian state is hardly one that has no use for industries, professional vocations, for scholars and artists, and for the life of the cities." [6] "It does not propose, as some frightened owners of electric refrigerators and vacuum cleaners have thought, the use of a sledge-hammer upon labor-saving machinery and the immediate return of the entire American people to the cow-shed and the old oaken bucket." [7]

Perhaps the most concrete statement of the program of the Southern Agrarians is to be found in Professor Frank Owsley's *Pillars of Agrarianism.* [8] In this article, Professor Owsley attempts a restatement and elaboration of "the fundamental economic and political principles on which an agrarian society will probably have to rest in the United States, and most particularly in the South."

5. Donald Davidson, "Agrarianism and Politics" in *The Review of Politics.* The University Press. Notre Dame, Indiana. Vol. 1, No. 2, p. 115. (April, 1939.)
6. *I'll Take My Stand,* pp. xviii-xvix.
7. Donald Davidson, *Agrarianism and Politics,* p. 115.
8. This article first appeared in the March, 1935, issue of *The American Review* and has been reprinted in *Contemporary Southern Prose.* R. C. Beatty and W. P. Fidler, editors. Boston, 1940.

An agrarian society, says Owsley, is one in which "the agrarian population and the people of the agricultural market towns must dominate the social, cultural, economic and political life of the state and give tone to it." The antithesis of such a society is the present one which allows a relatively few men to control most of the nation's wealth and to regiment virtually the whole population under their anonymous holding companies and corporations and to control government by bribery or intimidation." The Agrarian favors a wide distribution of productive property and decentralization of industry. To accomplish this transformation Owsley proposes five measures:

1) The restoration of the people to the land and the land to the people by the government purchasing lands held by loan companies, insurance companies, banks, absentee landlords and planters whose estates are hopelessly encumbered with debt, and granting to the landless tenants who are sufficiently able and responsible to own and conserve the land a homestead of eighty acres with sufficient stock to cultivate the farm, and cash enough to feed and clothe the family for one year.

This proposal aims at the reestablishment of a rural yeoman class, which, according to Owsley, was the status of the forebears of most of the present white tenants in the South.[9] Their present plight is due to "industrial exploitation, depression, ... high pressure salesmanship of radio, automobile and farm machinery agents. Industrialism has persuaded or created a public opinion which has virtually driven the farmer to accept industrial tastes and standards of living, and forced him to mortgage and then to lose his farm." The Agrarians deny that the farm lands of the South are overcrowded. They would bring back some of the intelligent city folk whose jobs have been destroyed by the machine. This reversal of the tide of migration is said to represent the only permanent relief from technological unemployment and, at the same time, the only way of restoring a healthy balance between city and country.

9. For some years past Ph.D. candidates in History under the direction of Professor Owsley have been making state studies of the economic structure of the ante-bellum South. His own synthesis of their findings is to appear shortly. It will give an abundantly documented and very different picture from the traditional one of large plantations, slaves and landless whites.

2) The preservation and restoration of the soil by the use of fines and escheats and by making land practically inalienable and non-mortgageable.

Land ownership is regarded as a public trust. The homesteader, as the recipient of a free gift from the government, would be subject to rigid controls. Others would be subjected to confiscatory fines if they failed to follow sound conservation practices. Consent of a court of equity would be required before land could be mortgaged. Land as the basis for credit would thus practically disappear. Henceforth the farmer would find it difficult to indulge in the gadgets "which have been responsible for his ruin."

3) The establishment of a balanced agriculture where subsistence crops are the first consideration, and the money crops are of secondary importance.

Owsley is confident that this shift in emphasis from cash to subsistence farming would remove the huge agricultural surpluses hanging over the market, permit of a demobilization of the whole crop control program and permit the South to sell its cotton and tobacco on the world market.

4) The establishment of a just political economy, where agriculture is placed upon an equal basis with industry, finance and commerce.

The protective tariff is regarded as the principal device by which the industrial and commercial interests have weighted the balance against agriculture. As long as the high protective tariff remains on the statute books the agricultural group must have a quid pro quo in the shape of a subsidy on every bale of cotton and pound of tobacco or other important agricultural product shipped abroad.

5) The creation of regional governments possessed of more autonomy than the states, which will sustain the political economy of each region, and which will prevent much sectional friction and sectional exploitation.[10]

The Federal legislative body would consist of a senate only, and the senators would be elected by their representative regional congresses. Similarly, the Supreme Court would represent the regions.

10. An elaboration of this idea will be found in W. Y. Elliott's *The Need for Constitutional Reform: A Program for National Security* (New York, 1935).

The regional legislatures would consist of a single chamber. The lower courts, that is, courts of appeal and circuit courts would be constituted regionally, but with jurisdiction over both federal and regional matters. The Federal government would be vested with control over foreign relations, the army and the navy, interstate commerce, banking and currency. The regional governments, on the other hand, would control the tariff. "Any region would have the right to withdraw itself from any tariff treaty which did not suit its peculiar needs." If the South should have a lower tariff than the other regions, goods imported through the South from abroad would have to pay an extra duty on entering the other regions operating under the treaty.

Such, in brief, is Professor Owsley's summation of the program of the Southern Agrarians.

Ligutti and Rawe offer us a somewhat different pattern of agrarian living, though the points of similarity are greater than the points of difference.[11] They share the Southern Agrarians' suspicion of the massive urban-industrial development of the last eighty years. They see in the growing divorce of the mass of the people from land ownership a grave threat to our social order. To them the emergence of the big city and the development of a proletarian class "with a slave mentality" are causally related. Wholesome family life is an impossibility in these vast conglomerations. The failure of the urban population to reproduce itself condemns the big city as antisocial. But the indictment does not stop there. Urbanization, the authors claim, is the product of a false division of labor which is destroying the art of living in the country as well as in the city. Farming has become specialized by regions and has been forced into the cash nexus. Cash cropping is destroying the stability of farm life, the wholesomeness of farm living, and, most ominous of all, the land itself.

If this last indictment can be proved, the economist must take it

11. Professor Owsley has queried this effort to distinguish between the views of the "Southern Agrarians" and those now to be described. He tells me that the two groups have worked closely together for years and that *Rural Roads to Security* may better be regarded as representing the evolution of agrarian thinking.

into account. Soil destruction represents a cost which must be reckoned with in any appraisal of the farm economy. The authors draw heavily upon the work of the Agricultural Research Laboratories at Dornach, Switzerland, to substantiate their charge. Very briefly, their charge[12] is that cash cropping as practiced in the United States destroys the humus, which is the basic reservoir of soil fertility. Humus formation depends upon the fermentation of organic matters and upon the work of the lowly earthworm. "He works up the soil into a crumbly structure, helps in soil aeration and drainage and makes it a tolerable medium for organic life. The excrement of the earthworm provides the perfect soil." Finally when their work is done these "indispensable" soil agents "die and provide an additional fertilizing substance through the decomposition of (their) own bodies." They cannot survive in soils which are choked with commercial fertilizers. With their disappearance the soil becomes packed, air and water cannot penetrate to the lower horizons. The normal processes of healthy soil formation are destroyed. In the long run a society practicing this type of farming is doomed. The technologies of farming are quite different from those of the factory. The authors conclude:

> It is quite evident that the complete technology, the complete series of highly interrelated agricultural processes will never be followed by specialized farm corporations and their farm laborers. Absentee landlords and migrating tenants, too, work for immediate cash. Their interest does not reach very far beyond the current monetary opportunity for gain. Only the family unit intelligently trained and owning its own land can give a nation the many fruits to be derived from an intelligent technology on the land.

Opposition to tenancy, a strong preference for a widely diffused system of farm ownership, and industrial decentralization are thus common to both schools of agrarianism. In certain significant details, however, their goals diverge. The Southern Agrarians paint a picture of the yeoman farmer isolated, to some degree at least, from his farm neighbors and from the towns and cities of the area. Here he lives a sturdy and independent life with only such contacts with

12. The quotes in this paragraph are taken from Ligutti and Rawe, pages 217-220 where their evidence is summarized.

the outside world as he chooses. His farm is his castle and within it he rears a family in the Jeffersonian tradition.

Ligutti and Rawe, on the other hand, are obviously under the influence of the continental European type of rural settlement. They do more than declare for a decentralization of industry and the building down of our mammoth cities. They would dovetail their farm economy into a decentralized industrial system. They neither foresee nor desire a return to the pioneer type of farm with the old water bucket, family dipper, the dim, smoky oil lamps, darkness and the feeling of isolation, long rides over bad roads in the old buggy. That picture fills them "with a feeling, which, even now, years after, amounts almost to repugnance." Their homestead of the future "is a modern, almost more than reasonably convenient, farm located somewhere out beyond the city smoke-stacks." [13]

The farm homes would be grouped together to promote normal community activities. They would bring back to these farms, with the aid of electricity, the old skills and the consumer-goods industries of the pre-power age. In the face of this new competition, with its backing of flexible, electrically driven tools, mass-production in many lines would prove inefficient. This modern farm would produce its foods and fibers and would conserve and process them in the off months when farming operations are slack. Situated in the midst of small well-planned towns and cities, some members of the farm family would find urban employment without the necessity of accepting the urban way of life.

The authors do not attempt to specify the size of this farm-homestead in acres. It would presumably vary according to the type of farming most appropriate to a particular area. Regardless of size, however, there would always be livestock on the farm for "biodynamic" reasons and the size would always be related to the capacity of the family to operate it. Hired labor has no place in their ideal program.

The authors also reserve an important place in their agrarian society for the part-time farm of five to ten acres in which the fam-

13. *Ibid.*, p. 83.

ilies would have one foot on the land and one in industry. Ideally the bulk of the urban workers would be part-time farmers. In this wise the conservative traditions associated with land ownership would dominate American life.[14]

The National-Industrial Thesis. As stated earlier, the best exposition of this thesis is to be found in *Migration and Economic Opportunity.* The authors of this study refuse to take sides between "those who look upon great cities as 'wens of civilization,'" and "those who share Marx's and Engels' opinion of the 'idiocy of rural life.'"[15] They believe that a study of past trends provides the safest basis for predicting the shape of things to come. Their trend analysis is both geographical and occupational. Regarding occupational trends they ask this very pertinent question:

> What part of the total gainfully occupied population is likely to be needed in agriculture, what part in other extractive industries, what part in manufacturing, and what part in the service trades and professions? (p. 393)

In attempting to answer it Goodrich and his associates undertake to set "certain ranges and limits of probability" regarding employment prospects in five major occupational groups: (1) agriculture, (2) forestry, (3) mining, (4) manufacturing and construction, and (5) other trades and services.

Their conclusions can be summarized very briefly: "Agriculture can make room for hardly more than one-fifth of the excess of farm births over deaths, even if there is no increase in output per worker."[16] *Forestry*[17] and *mining*[18] employ too few workers to provide any significant assistance to the employment problem from the national point of view. Employment in *manufacturing* and *construction* declined relatively during the prosperous 1920s—something

14. In his *International Economic Disintegration,* Professor W. Roepke takes a position very close to that of the Agrarians, especially in the Ligutti and Rawe version. See especially pp. 262-66. The agrarian thesis is also developed very persuasively and in sociological language by the emigré German scholar, Professor Alexander Rüstow of the University of Istanbul, in an appendix to Roepke's book.
15. Goodrich *et al.,* p. 3.
16. P. 407.
17. Pp. 403-21.
18. Pp. 421-39.

which had never happened before [19] and meantime technological innovations continue. The final conclusion is that "even under the most favorable conditions, total physical industrial production . . . . will not require great increases in man-power." [20] Only in *other trades and services* [21] do Goodrich and his associates see possible outlets for the surplus labor from American farms.

The Goodrich analysis is next directed to the geographical aspects of the problem. Where will these occupational outlets be found? May we expect the jobs to seek out the reservoirs of idle men, or, conversely, will idle men tend to seek jobs in areas where occupations have long been concentrated? On this point too the conclusion is definite:

> *The chances of future livelihood are in general better in the North and West than in the South.*[22] . . . . Though there may be hope of reorganizing the rural life of the area, and though we may expect some continuation of the southward drift of manufacturing, these changes hold out to the region no prospect of an increase in opportunity great enough to remove its long-standing economic deficiencies, to care for the population now in distress, and to counteract the effect of a high birth-rate.

This conclusion, based upon a study of locational trends, 1899-1929, has been accepted and elaborated upon by the National Resources Planning Board [23] in *Problems of a Changing Population.* We venture to reproduce the evidence and the conclusions of this report at some length since they represent the judgment of the most important over-all planning agency of the federal government:

> The absence of any marked trend toward dispersion of industry is shown by noting the constant proportion of wage jobs and the increasing share of total wages reported for the 200 counties comprising the industrial areas as defined by the Census of Manufacturers in 1929. . . . .
>
> For the past 30 years these 200 counties (out of the more than 3,000 counties in the United States) have provided nearly three-fourths of the total manu-

19. P. 441.
20. P. 470.
21. Under this heading the authors include public utilities and transportation, distribution and service establishments, professional and quasi-professional workers of the public services.
22. P. 499, Italics added.
23. The name of this agency, which is directly responsible to the President, has been changed a number of times since its inception in 1933.

facturing employment and more than three-fourths of the total wages paid. The stability of these percentages is as remarkable as their size.

. . . . . .

The old manufacturing belt is an area of concentration, with relatively few jobs located in the nonindustrial "all-the-rest" counties. All the Southern States and the Mountain States of the West are areas of wide dispersion of wage jobs. One-half to two-thirds of the jobs are in counties outside the industrial areas. On the Pacific coast there is more concentration than in the South but less than in the East. About one-third of the manufacturing employment is in the non-industrial counties. How has this general pattern of concentration and dispersion varied during the past 34 years?

For the entire country the period from 1899 to 1933 witnessed a relative decline in the proportion of total wage jobs in manufacturing supplied by the principal industrial cities and their large satellite cities. The industrial peripheries of these cities, other large cities, and the important industrial counties showed a steady increase. The trend in the remaining 2,800 counties—the area of dispersion—was irregular, the proportion of wage jobs generally decreasing until 1931, but increasing somewhat in the next 2 years. There was little net change between 1899-1933.

There was the same general trend throughout the United States, with two important exceptions. In New England there was a definite increase in the proportion of wage jobs located in the principal cities of the industrial areas and an even more marked decrease in the relative importance of the nonindustrial counties. This reveals an unequivocal tendency toward centralization in this area. . . . . On the other hand, in the South Atlantic States the proportion of all wage jobs that were located in the principal industrial cities was reduced one-half between 1899 and 1933. The important industrial counties without a city of more than 100,000 population had the largest relative increase in their proportion of the total manufacturing employment (from 8 to 18 per cent of the total for the region).

. . . . . .

The foregoing analysis, however, offers little support for a belief that opportunities for part-time or full-time industrial employment can be widely distributed geographically in the near future. The records both of past migration and of industrial expansion show that *workers have usually moved to the factory, rather than the factory to the workers.* There is little evidence that there will be widespread development of combined industrial-farming employment, as the basis for a better national economy, although there may be important developments of this sort in certain favored localities.[24]

The report of the Committee concludes that the future labor supply will be born in areas far removed from centers of employment and that adjustments will occur in the future as in the past, by the movement of people to jobs rather than jobs to people.

24. Pp. 71-2. Italics added.

The Regional-Industrial Thesis. Members of this school look forward to an industrialized South in an increasingly industrialized nation. The locational rigidities noted by Goodrich and his associates and by The National Resources Planning Board are regarded as products of inertia and of improper political interventions and hence capable of being broken down. Members of this school are apt to favor local subsidies to attract new industries, to be opposed to trade unionism—as contrary to the American way of life, and as a movement which threatens to remove the wage differentials which favor Southern industrialization.

Members of this school show little awareness of the plight of the agricultural South. Tenancy and soil erosion might be nonexistent. Perhaps it would be fairer to say that in their opinion the solution of the rural problem depends upon expansion of urban opportunities. Their eyes are turned as resolutely forward toward a hoped-for industrialized South as the eyes of the Southern Agrarians are turned backward in nostalgic longing for the simpler agrarian society of Jefferson. A comparison of the literature emanating from these two schools reveals the presence of two Souths—one of poets, historians and philosophers, the other of practical men of affairs, go-getters, materialists, supremely confident in the future of the South. The following citations reveal the militant optimism of this group.

This section has been unwisely characterized as the economic problem No. 1 of the nation. Quite the opposite is true. The South presents the nation's greatest opportunity for industrial development. It is the nation's storehouse of raw materials in such quantity and variety for the increase and development of America's wealth as are found nowhere else. They are abundant and accessible. Other conditions of power, of transportation and of labor make certain the value of the opportunity which is presented manufacturers and investors.

Industry recognizes the opportunity existing in this region where bountiful nature has placed the necessary materials for its success in such proximity and abundance as are found in no similar area. Industrial enterprise has been coming South in increasing degree, and now in this section there are many plants not only the largest in the country, but the largest in the world in their respective lines. . . .

The South has cheap power and a network of transportation facilities ample for all requirements. It has intelligent labor, besides an equable climate which

permits year 'round outdoor work without hindrance by weather. It is well to emphasize here the fact that in this territory American labor predominates to an unusual degree. The South's population has only 7.8 per cent of foreign stock. . . . . The remaining 92.2 per cent American stock has caused the Southern states frequently to be termed by writers and speakers of other sections "the outstanding bulwark of Americanism."

The South is the logical, natural workshop of the nation, and in the development of its resources lies our greatest economic opportunity.[25]

The remainder of this chapter is devoted to an appraisal of these three schools of thought regarding the future economic structure of the Southern Region.

The goal proposed by the Southern Agrarians represents a value judgment which transcends the limitations which the social scientist should observe.[26] It undertakes to say what the people should prefer, and it proposes measures to put out of their reach those things which are incompatible with the agrarian way of life. In disregard of the trend of more than a century, and of the technological revolution now going on in agriculture, it holds that the proportion of the population engaged in raising the foods, feeds and fibers can be increased. It calls for a life of Spartan simplicity on the land. Modern goals in the way of highways, education, health and sanitation would appear to depend upon the availability of aid from the outside. But will the urban group, which is even now sacrificing children to its standard of living, be prepared to provide the subsidy to this minority group? What evidence have we, moreover, that the land can support without impairment the growing numbers which the agrarian way of life admittedly fosters? If soil-conservation considerations set a maximum carrying capacity at this stage in our technical knowledge and prevailing practices, it would be necessary to support a growing proportion of the farm group in idleness or else adopt policies designed to draw them off into nonfarm pursuits. Does not the problem of population transfer, which the agrarian rejects at the outset, come back to confront him as soon as his attention is shifted to the physical basis of agrarianism?

25. Manufacturers Record, *The South's Resources,* Sept., 1940, pp. 36-38 *passim.* Reproduced by permission.
26. This fact is not a proof of its invalidity. Intuition is sometimes a better guide than logic, though always a hazardous one.

Owsley's fifth pillar of agrarianism—the creation of regional governments with important elements of sovereignty—harks back to the Confederation or American League of Friendship of 1776-1787. It would rest the power of the central government on organized regional governments, instead of upon the people themselves. The history of leagues, down to and including the League of Nations, reveals the difficulty of making any such arrangement effective.[27] It appears more likely to revive sectionalism than to revitalize regionalism.[28] In our opinion the prospects of successfully compromising regional conflicts of interest would be reduced, not increased if this proposal were adopted.

Ligutti's and Rawe's argument for agrarianism is more moral, biological and sociological than economic. Nonetheless their case for industrial decentralization, for farm diversification, for the restoration to the farm of many of the industrial processes surrendered to the factory in the early stages of the industrial revolution, and for part-time farming can be restated in economic terms which are logical and weighty. So restated, their argument is that territorial and occupational specialization has been carried beyond the point at which costs are minimized. The labor requirements on the commercialized farm, for example, are necessarily seasonal. Much labor goes to waste. The advent of rural electrification affords an opportunity to restore to the farm many of the simpler industrial processes and thus to utilize this wasted labor.

Similarly the argument for making the farm responsible, first of all, for feeding the farm family can be defended on strictly economic grounds. The argument here is that specialized farming is uneconomical because it involves a very unfavorable exchange relationship. The farmer sells his products at less than wholesale and buys supplies at retail, and frequently in the most poorly organized

27. Clarence Streit has presented a convincing statement of the weaknesses of the league form of political organization. See his *Union Now: A Proposal for a Federal Union of the Democracies of the North Atlantic.* (New York, 1939.)

28. In *A Study of War* (University of Chicago Press, 1942), Quincy Wright draws attention to the fact that, in the modern period agrarian societies, and the populations attached to the agrarian segments of industrial societies, have been exceedingly warlike. Pp. 1156-58 and 1164.

segment of the retail market. It is true that the farmers in any given area cannot produce for market most of the products, which it is physically possible to grow on their lands, as economically as they can be produced in more favored areas. But when it comes to producing for the farmer's own table, the disadvantage has to be very great to outweigh the unfavorable exchange relationship. When the farmer buys things he could produce on his own farm he is buying the services of middlemen and transportation agencies as well as those of the low cost farmer from whose lands the products came.

Obviously complete self-sufficiency would be impossible and undesirable. Rice cannot be raised in most parts of the United States. Tropical friuts would not figure in the calculations of most American farmers. The great staples of American diet, however, corn, wheat, green vegetables, milk, eggs, poultry, pork, beef, fruits, etc., can be raised on almost all farms. Applied to these staples, proper cost accounting would reveal the fact that a reasonably rounded live-at-home program is good economics. Moreover soil conservation policies can be more easily worked out for a diversified farm with a live-at-home program than for one narrowly specialized on a few cash crops.

Special considerations would always keep the program below the theoretical optimum. Every product of the farm requires special attention and, frequently, specialized equipment. In some cases the labor requirements would interfere with those for important cash crops; in others, the cost of equipment would render production uneconomical. Mere convenience finally may warrant the omission of a product from the live-at-home program.[29] A completely rounded program would be unduly laborious. Leisure has an appropriate place in a farmer's calculations. Subject to these qualifications, however, the live-at-home program of the Agrarians is essentially sound and now has the support of most farm experts.

29. If some of these omitted products are raised in the immediate area a farmer may be able to buy directly from his farm neighbors, perhaps on barter terms of trade which eliminate the unfavorable wholesale-retail exchange relationship. We know of a successful fruit farmer near Erie, Pennsylvania, who has given up the practice of raising potatoes for his own table because he can buy better ones directly from farmers on near-by uplands, just outside the good fruit growing area.

The case for part-time farming rests on much the same line of reasoning. Technological advances have made possible a progressive shortening of the work day in industry and commerce, and have reduced the human energy involved in production. The city worker has more leisure and surplus energy than ever before. To date he has not yet mastered the art of using leisure for effective living. Similarly the automobile has given him a mobility [30] which he has not yet learned to harness to constructive ends. Part-time farming, it is argued, affords the ideal outlet for this surplus of leisure, energy and for this heightened mobility. In addition, the business cycle would lose some of its terrors if the bulk of the urban population could be induced to adopt this combination.

As a matter of fact some two million of the nation's farmers supplemented their farm income by outside work during 1934. Almost 572,000 reported 150 or more days work off the farm.[31] Ligutti and Rawe see in this situation evidence that part-time farming is destined to play a far larger role in the future. Others, however, regard it as evidence of the inadequacy of full-time earnings.

While the part-time farming pattern is theoretically capable of a very great expansion, the development probably will be slow. In good times, the American urban worker and his family are relatively indifferent to small economies. They prefer to "spend" their leisure. The movie, the pool room, the fraternal organization, the automobile and the open road are all competitors for their spare time and their extra pennies. The disciplines of successful gardening are vexatious to many people. While the amount of labor is not excessive, it must be performed intelligently and at the appointed time. Many a garden has been allowed to go to weed or has been destroyed by pests for lack of sustained enthusiasm. In the words of the "poet," [32]

30. In the period following World War II the "flivver" aeroplane may become as common as the "jallopy" and much cheaper to operate. The resulting increase in mobility may have revolutionary effects on the pattern of industrial location. A plant would draw upon points 200 miles distant as easily as plants now draw on points 10 and 15 miles away. The huge landing fields required for commuting by air would constitute a new and powerful decentralizing force.
31. Quoted from Ligutti and Rawe, pp. 156-7.
32. Burge Buzzelle in "Postscripts" in *The Saturday Evening Post*, August 30, 1941.

Verily
I take pride in my yard in the springtime—
Grass, shrubbery, flowers and all;
But interest wanes in the summer,
And pride goeth before fall.

The Goodrich study summarizes American experience and concludes:

It appears that not more than a very small fraction of the urban population is willing and able to practice part-time farming, that such farming provides only meager security against industrial unemployment, and that the most helpful future action that might be taken by the Government would consist of measures designed to reduce the cost of housing in relation to industrial wages. In the search for social security, emphasis must be given to something more substantial than part-time farming, unless the future holds nothing but economic disintegration. From an economic standpoint, progress lies in the direction of freeing existing part-time farmers from the necessity of producing their own food and of advancing poverty-stricken subsistence farmers in the problem areas to the status of part-time farmers. To make part-time farmers out of any large segment of the urban population would be distinctly worse, economically, than to provide the opportunity for their escape from the necessity of farm drudgery. To do so, moreover, would be to reduce the market for commercial agriculture. This complication does not arise where subsistence farmers are advanced to the status of part-time farmers, for they are already producing part of their food supply. There is some merit in programs to encourage a modest extension of part-time farming for urban people, but it must be clearly recognized that from this source the individual family can expect only a small fraction of its necessary income and that the sum total of such enterprises cannot make a major contribution to national economic security.[33]

Even more emphatic in his condemnation is Albert L. Meyers, now chief economist of The American Farm Bureau. The ideal of each industrial worker with his own small farm, if extensively realized

would insure the impoverishment of thousands of specialized fruit and vegetable and chicken farmers . . . . and so would still further decrease the demand for the products of the factories. It is a negation of all of the advantages we have found in specialization. . . . . We have spent much money and effort in educating professional farmers to be good farmers. There is no need to turn around and try to make jack-of-all-trades out of good factory hands.[34]

While sharing this scepticism regarding part-time farming as

33. Pp. 637-8.
34. *Modern Economics: Elements and Problems* (New York, 1941), pp. 252-3.

a universal solvent, it nonetheless seems to us desirable to promote the movement by appropriate community effort. Particularly in the Southeast conditions are favorable. Towns and cities are still small. Outlying lands are still cheap. The farming tradition is still present in a relatively large proportion of the urban population. Building on these favorable factors, town and county authorities could promote the physical basis for part-time farming by increasing the minimum size of lots in close-in subdivisions and establishing progressively larger minima in more distant zones. Such an ordnance would affect speculative acreage values more than lot values. The authorities could also promote an attitude favorable to part-time gardening by making soil conservation and gardening a part of the public school curriculum and by encouraging pupils to develop home gardens. In this manner a pattern could be set which would enhance the liveableness of the community and develop in the coming generation that love of the land and its fruits upon which not merely part-time farming depends but the larger campaign for erosion control on which the whole future of our American civilization depends. It cannot be emphasized too much that in a democratic society, control of this menace calls for an understanding of the problem by *all* the people, urban dwellers as well as farmers.

We shall indicate in another chapter how certain modifications in our system of taxing land could also promote the maintenance of farming on the urban fringe.

The Goodrich conclusions regarding future occupational and locational prospects appear to rest unduly on the assumption that existing rigidities will continue to operate in the future as in the past. To the extent that they are man-made—i.e., results of the protective tariff, patent laws, inflexible prices in the regulated utility field, collusive agreements among producers, trade union restrictions, etc.,—they are capable of modification. The prediction, for example, that the manufacturing segment of the economy is incapable of providing employment for an increasing proportion of the gainfully employed rests upon acceptance of rigidities. If they can be broken down, prices can be brought down. A lowering of

prices would result in a disproportionate increase in the quantities demanded, since the demand for most of the products of industry is relatively elastic. The resulting increase in sales would require an increase in labor or in labor-saving machinery. The more trade union restrictions succeed in keeping wages up the greater would be the resort to labor-saving machinery. While this would increase the demand for labor in the capital goods industries the total demand for labor in the processing segment of the economy as a whole would be less than if money wages were allowed to fall. Such a fall would not necessarily mean a fall in real wages since the cost of living would also be falling.

These results would only occur, however, if reasonable price flexibility prevailed throughout the manufacturing segment of the economy. A price reduction at one single phase of the long production process can have little effect. Particularly if the reduction occurs at an early stage in the production process it tends to be absorbed before it reaches the final consumer-goods stage where the principle of demand elasticity really operates. A ten per cent reduction in a semi-processed good may result in only a two per cent reduction in the cost of production of the consumer-good making use of it. This two per cent reduction, if passed on to the consumer, may result in a more than two per cent increase in the volume of sales, say a three per cent increase. The manufacturer of the semi-processed good would now find that his ten per cent price reduction had increased the demand for his product by only three per cent. It is not surprising that manufacturers hesitate to pass on cost reductions in an economy which is shot through with rigidities. Their attitude and their interests would be very different if they knew that similar economies were being passed on by all the producers engaged in the long and complicated round-about processes of production which characterize modern industrialism. In that event the ten per cent reduction by the manufacturer of a semi-processed good might easily come back to him in the shape of a 15 per cent increase in demand on the part of his principal outlet. This is why reasonable price flexibility at every stage in produc-

tion is necessary if the manufacturing and construction segments of the economy are again to become outlets for the surplus population from the farms.

The following conclusions emerge from this discussion: The failure to break down artificial rigidities condemns the American economy to chronic under-employment, due to the marked differences in the rates of growth in the populations attached to the processing and the extractive segments of the economy. These growth differentials necessarily perpetuate the equally large differentials in urban and rural living standards. Governmental efforts at equalization, via taxing and spending, lead to an ever increasing regimentation which can eventually destroy the system of free private enterprise.[35]

These same rigidities are in part responsible for the locational rigidities on which the Goodrich-National Resources Planning Board proposition rests, namely that men must move to jobs rather than jobs to men. If these rigidities can be reduced the forces making for scatter will be strengthened. As a matter of fact the forces making for decentralization appear to be underestimated by Goodrich. Recent developments in the South provide evidence in support of this assertion.

New industries are coming to the South in impressive numbers. The cotton textile industry is now largely concentrated in the South. Two-thirds of recent investments in pulp paper, rayon, petroleum refining, heavy chemical and processing industries were made in this area. In 1936 and 1937 $59,000,000 more was invested in this area in new plant and modernization than in all the rest of the country combined; $186,000,000 as against $39,000,000 for the Middle West, its nearest competitor.[36] Considerable evidence can be ad-

35. If a major governmental intervention is really necessary to maintain balance between the extractive and the processing segments of the economy, the proper aim should be to expand production in the processing segment rather than to contract production and subsidize the producers in the extractive segment. Suggestions as to ways and means of doing this are to be found in Mordecai Ezikiel's contribution to the National Resources Planning Board report, *The Structure of the American Economy*, Pt. II, Ch. VI, and in Frank D. Graham's *Social Goals and Economic Institutions* (Princeton, 1942), especially pages 89 ff. The interventions of the 1930's appear to have been based on the pessimistic assumption of general overproduction in the private segment of the economy.

36. "Diversification Goes South," *Business Week*, February 12, 1938, p. 20.

duced to show that large national concerns are decentralizing their production.[37] If this trend continues, a larger proportion than heretofore of the production of such concerns will be located in the Southern area. United States Steel's recent abandonment of its practice of maintaining a larger spread between pig iron and steel at Birmingham than at Pittsburgh promises to realize for the Alabama center the roseate predictions which steel men have been making for the past thirty years.[38]

In brief, industry has been breaking through its regional straitjacket at an increasing tempo, and the chief beneficiary (or victim, as some would say) has been the Southeast. Starting from a very low point, its growth has not as yet made any serious inroads on the 200-industrial-county-concentration pattern as a whole, but the center of gravity has been pulled southward and the trend promises to be increasingly in the same direction. What Goodrich dismissed as an exception to his general rule, appears on closer inspection, and on the basis of more recent developments, to be the beginning of an important new trend in industrial location. Between 1919 and 1933 the Southeast's share of wage jobs rose by 34 per cent, in contrast with a decline of 8.4 per cent for the Northeast and an insignificant increase for the Middle States (0.4 per cent). The corresponding figures for wages paid were plus 19.4, minus 4.1 and plus 1.3.[39]

Professor Spengler has recently submitted additional evidence in support of our conclusion. His figures on percentage changes in wage jobs in manufacturing, by regions 1899-1937, reveal the fact that his Southeastern Region[40] increased its percentage from 6.2 to 11.5 while every other region, with one exception, lost ground. The exception was his Louisiana-Texas region which increased its percentage from 2.3 to 2.4.[41] Indeed he hazards the prediction "that a considerable proportion of such future manufacturing as takes

37. "Industry on the Move," *Business Week*, February 27, 1937, p. 43.
38. *Fortune*, November, 1938, p. 118.
39. Calculated from data in Table 7, National Resources Committee, *Problems of a Changing Population*, p. 68.
40. It differs from ours by the exclusion of Kentucky, Mississippi, Louisiana and Arkansas.
41. J. J. Spengler, "Regional Differences and the Future of Manufacturing in America," in *Southern Economic Journal*, Vol. VII, No. 4 (April, 1941), p. 488.

place in the United States will take place in . . . . the Southeast."

There is thus plenty of justification for the predictions of the regional-industrial school. The Southern Region is definitely in the early stages of industrialization. There is little reason to doubt that the process will continue. With the rapid slowing down of the rural rate of population growth the day may not be far distant when the Southeast will be able to provide a reasonably wide diversity of opportunities for its children.

There is no insoluble conflict between the agrarian and the industrial goals for the South. A healthy and vigorous industrial life within the region is essential to the development of a healthy and diversified agricultural economy. The Agrarians, particularly the Southern Agrarians, appear to be insufficiently aware of this fact. Similarly, they see the shortcomings more clearly than the amenities of urban living and they appear to be unaware or unduly sceptical of the extent to which city planning can improve the urban way of life. The Southern industrialists, on the other hand, appear to be overly complacent regarding the rural South and unduly unsympathetic with the idea that industrialization will have to be guided and controlled if it is not to blight the many attractive towns and small cities which at the present time are the most aesthetically satisfying parts of the Southern landscape.

Industrialization appears to be an essential part of any long run goal for the Southern Region. It is the only way by which the Region can hope to retain a larger share of the leadership material upon which its reconstruction depends. The massive migration, which has been going on since the Civil War, has probably not yet affected the biological quality of the population. It has, however, taken away those possessing better than average health and education. The latter is definitely not an inherited characteristic, and the former is more likely to reflect environmental factors than biological ones. This erosion has been due in part to the direct pressure of poverty, but also in part to the absence of a sufficiently broad range of choices for the varied tastes and talents of the millions of young people growing up in the area.

Regional specialization can be carried too far. Social and political considerations indicate that we should not rely too heavily on population mobility to equalize regional differences. A people on the move do not develop a genuinely satisfactory culture. Capital should be more mobile than labor. In this connection an eloquent passage from Walter Lippmann's *The Good Society* is worth quoting:

> The liberal system requires not only great adaptability in men, but an even higher degree of mobility in capital. On the whole, the machines must come to the men rather than men to the machines. A civilized life is impossible for nomads who settle nowhere and do not put down deep roots in a particular place. For men who have just arrived and will soon depart tend to be crudely acquisitive. They are transients who have no permanent stake in any community, and there are no ties, other than the cash nexus, between them and their neighbors They live only in the present, having no ancestral tradition fixed on any place and no care for posterity. The good life finds little encouragement where men do not feel themselves to be links in a chain from the past into the future, where they live from day to day without deep associations and long memories and more than personal hopes. There is no doubt that the industrial revolution decivilized great masses of men when it drew them out of their ancestral homes and gathered them together in great, bleak, anonymous, congested slums.
>
> It follows that if the necessities of a civilized life are to be accommodated with the new economy, the stipulation of the classical economics, that labor and capital must both be perfectly mobile, has to be modified. Capital has to be more mobile than labor, sufficiently more mobile to compensate for the inevitable and desirable human resistance to a migratory existence. This is not to say that all the generations must remain forever rooted in the place where they happen to be. But it does mean that the tides of population must move slowly if old communities are not to be devitalized by emigration and new communities overwhelmed by unassimilable immigration. It should, therefore, be the aim of policy to mitigate this human evil by using social controls to induce inanimate capital, rather than living men to achieve high mobility. It should be the aim of educational policy to make most men versatile and adaptable in the place where they were born, and of economic policy to make capital mobile.[42]

Our history to date appears to reflect excessive mobility of labor and insufficient mobility of capital. This leads to the conclusion that diversification should comprehend more than agricultural reform if it is to serve the South.

42. Walter Lippmann, *An Inquiry into the Principle of the Good Society* (Boston, 1937), pp. 213-14. Reproduced with permission of Little, Brown & Company and the Atlantic Monthly Press.

Soil conservation considerations reinforce this general conclusion. Modification of farm practices is a slow and costly process. Even though the lands of the Southeast were eventually able to support satisfactorily as many people as at present the immediate need is for some reduction of the pressure. A shift to nonfarm occupations fairly near at home is easier to make than one involving in addition a long trek to a strange part of the country. It is easier for the individuals concerned; it should also be easier to develop an effective intra-regional clearance and placement service.

In still another sense soil conservation calls for a substantially greater degree of industrialization than at present. Cash cropping is likely to be associated with soil mining. Soil conservation, on the other hand, tends to be associated with diversified farming. Diversified farming, however, at anything above the subsistence level, depends upon ability to sell small and relatively varied surpluses. The presence of good consumer markets, relatively close at hand, is a powerful impetus to diversification. The soil-depleting-cash cropping system in the South is due to no small extent to the fact that the rich consumer markets in the United States are distant markets.

Thus industrialization and agricultural diversification supplement one another. The coming of industry facilitates population transfer from farm to city within the region and preserves the leadership materials for further regional advance. Agricultural diversification builds up the soil, increases the sustaining capacity of Southern farms and thus reduces the long-run volume of migration from farm to city necessary to bring rural living standards up to urban standards. In brief, diversification is essential to the future welfare of the Southern Region.

Assuming the general adoption of diversification and effective conservation, the Southeast would still be at a serious disadvantage relative to the Middle States. The Southeast, it will be recalled, has only 13 per cent of its area in Grades 1 and 2 land (42 million acres), while more than half of the area of the Middle States (150 million acres), falls in these two grades. This inferiority is due not only

to the rough topography, the climatic factors, and the exhaustive types of land use which have persisted from the first settlement, but also to the fact that the red and yellow soils of the South are relatively low in natural fertility and in their capacity to hold organic materials. This situation indicates that the eventual balance between farm and non-farm occupations calls for a lower proportion in agriculture in the South than in the Middle States.

The more widely industrial developments diffuse through the area the more effectively will it serve the cause of agricultural diversification. We have already discovered good grounds for predicting that industry will continue to move southward. We now have to ask whether the locational pattern in the area will follow the concentration tendency characteristic of the older industrial areas or tend to scatter more broadly over the region.

Goodrich's prediction (it will be recalled) is that the industrial development of the future will tend to center in the larger cities and their environs and in few highly industrialized counties.[43] This generalization appears to be less valid for the Southeast than for other parts of the country. The textile belt in the Piedmont of North Carolina is a single-industry small-town type of development. When the Aluminum Company of America came to Tennessee it established itself not at Knoxville but 16 miles to the south, near the small town of Maryville, whose population was just under 5,000 in 1930. The Eastman interests built from scratch at what is now Kingsport, remote from a town of any size. The Duponts established their Tennessee nylon plants at Old Hickory rather than at Nashville. There is considerable evidence that smaller cities in the South are proving very attractive to new industries. The author of an article in *Business Week* stated, after an examination of new plant locations, that a town of 5,000 inhabitants is the ideal size for a plant employing 500 persons.[44] In the article previously cited, Spengler provides further evidence in support of this thesis. He shows that whereas only 17.5 per cent of wage jobs in his Manufac-

43. *Migration and Economic Opportunity*, pp. 323-4.
44. February 12, 1938, p. 24.

turing Belt were located (1937) in counties with less than 10,000 wage earners, the corresponding figure for the Southeast was 65.5 per cent. Indeed just over two-fifths of all jobs were located in counties with less than 5,000 wage jobs.[45] These are wholesome trends, deserving of encouragement.

This is not a plea for regional autarchy. Rather it is an argument against carrying specialization beyond the point dictated by the principle of comparative advantage. The economy of the South should be such as to attract as well as to expell populations. Isolation and in-breeding are inimical to the formation of a satisfactory culture. The large one way movement from the South has not provided the invigorating cross-fertilization of ideas and of racial stock that makes for new and better cultural combinations. The older industrial sections on the other hand have been swamped by successive population waves. There has been no time for assimilation. As a consequence the South is characteristically conservative and ill equipped to meet rapidly changing conditions, while areas of excessive immigration display a proneness to experimentation that frequently borders on the reckless. With a cutting off of foreign immigration inter-regional migration has assumed a new importance in American life. To yield maximum social values it should not be on too large a scale and it should not all be in one direction. A greater migration of capital and specialized labor to the Southeast would be desirable on this score.

Whether industry makes its maximum contribution to regional welfare will depend very much on the social controls that accompany the development. The courtship to date appears to have been a little too eager. The Region possesses a dowry in the way of climate, labor supply, raw materials, power, transportation, and the amenities of living that warrant the writing of a better marriage contract. The competitive bidding of her towns for industrial suitors renders difficult the enactment of the social controls that should guide industrialization.

To conclude, our goal for the South calls for a more diversified

45. *Southern Economic Journal*, Vol. VII, No. 4 (April, 1941), p. 492.

agriculture, varied and prosperous industries, a marketing organization equipped to facilitate the intra-regional exchange of the products of Southern agriculture and industry, and to exchange regional surpluses for the goods and services most advantageously obtained from outside the region, a financial organization capable of providing at economical rates the funds for current transactions and of directing regional savings into regional opportunities, and finally a governmental organization equipped to satisfy the educational,[46] recreational, health and aesthetic needs of a civilized people.

In succeeding chapters we shall examine critically some of the more important governmental interventions with a view to determining whether they promote or obstruct the realization of the goal which we have ventured to recommend for the Southern Region.

We propose to discuss first certain state and local measures and then a few Federal measures.

46. The Southern Region stands in particular need of a limited number of really first-rate universities. For lack of them too many of her most capable and ambitious young men and women go to the colleges and graduate schools of the other regions to complete their education, never to return to the South.

Chapter V

LAND USE PLANNING

WHILE the further growth of industry and commerce is to be expected, it would be a mistake to see in this trend the solution for all of the South's problems. Population is piling up too fast on the area's natural resource base to warrant any such complacency. Public policy must be directed not merely to the discovery and development of alternative nonfarm opportunities within and without the region, but also to increasing the permanent supporting capacity of the land. This chapter deals with the problem of effective land utilization.

Land is effectively used when each and every plot is being put to the use for which it is best adapted. Best adaptation implies a balance between present and future. In the case of exhaustible resources the future must necessarily be sacrificed to the present. All that can reasonably be asked of one generation is that it extract these resources effectively, with a minimum of waste. It is contrary to sound public policy to tolerate for example, a method of coal mining which leaves an important part of a deposit in the mine and in such a condition that future generations will not be able to get at it. Other examples of waste, particularly in the field of oil extraction, could be cited. Many of these wastes are due to the fact that under American law property rights in land do not fit in with the technical requirements governing the extraction of subsurface resources. Legal arrangements create loop-holes through which men can escape part of the costs of their activities. The result is waste. The least we owe to future generations is that we conduct our operations responsibly and economically.

Land utilization is carried on by individuals operating under rules and regulations, some legal, some customary. To the extent that these regulations are legal, they represent governmental planning devices. Their purpose is to bring about the most effective utilization of the gifts of nature. The theory underlying the rules and regulations adopted by the Federal government and the governments of the original thirteen states was that the best land uses would be promoted by giving to individuals untrammeled property rights in land. Self-interest was to be the guiding and the motivating force. The philosophy of individualism was in high repute. Men were far too eager to exploit the country's vast resources to tolerate the idea that entry upon them should be held up pending a careful inventory of their amount and their nature. Coal lands, mineral lands, forest lands, rich agricultural lands, poor agricultural lands, all were thrown open indiscriminately to settlement. From one point of view the settlement of the United States was a vast land speculation, guided by a few general rules and regulations governing land in general and fitted little if at all to particular types or classes of land. The result was a shocking misuse of land, a scattering of population which increased the cost of maintaining communications and social services, and, finally, an over-staffing of the extractive segment of the American economy, which helps account for the persistently low rewards in this phase of our economy.

Until recently these low rewards were offset, at least in the minds of millions of Americans, by the prospects of a rise in the value of their holdings. Developments of the past generation, however, have exploded these prospects. Land value increments can no longer be counted upon to provide delayed compensation for the inadequacies of the present. The pressure of the farm bloc on Congress has increased as the prospects of land value increments have faded. A weakness of the movement lies in its failure to realize that the relative overstaffing of agriculture is an important reason for the farmer's plight. While the New Deal may have yielded unduly to this pressure, it has also shown a more vivid comprehension than previous administrations of the need for stopping the soil mining

practices of pioneer days. Wasteful as certain aspects of the farm subsidy program have undoubtedly been, these wastes may be less than those concealed in the soil destructive practices of the past. The New Deal has advanced enormously public recognition of the need of adapting public policies and private farm practices to the characteristics of lands of different sorts.

Land Classification

One of the most encouraging of recent developments has been the movement for inventorying and classifying the nation's resources. Public opinion is slowly rallying to the idea that the rules and regulations governing land utilization must be fitted not to land in general but to the varying kinds of land to be found in any particular area. We are beginning to realize, as European countries did two centuries earlier, that land planning must rest upon careful inventory and classification.[1]

The Land Committee of the National Resources Planning Board treats land inventorying as a phase of land classification. There is no objection to this practice as long as the distinction between inventorying and classifying are understood. Inventorying is objective and descriptive. In a land inventory there is no attempt to prescribe for land, to say how it should be used. In land classification, on the other hand, the element of prescription is avowedly present.

Land inventorying and land classification become really effective only as their results can be placed upon maps. Map making and map interpretation promise to become as important in the social scientist's kit of tools as statistical techniques have become.

Probably the best known land classification work is that carried on in New York State by the Cornell State College of Agriculture. It grew out of the effort of the Extension Service to discover the relationship between intensity of use and fertility, in order to be

1. Students interested in the development and present status of the movement will find an excellent summary in the October, 1940, Report of the Land Committee of the National Resources Planning Board entitled *Land Classification in the United States.* (U. S. Govt. Printing Office. Washington, 1941.) This will be cited hereafter as NRPB, *Land Classification.*

able to say what was the optimum investment (input) on farms on different types of soil. Farms were being abandoned in certain areas. Should the College and the Extension Service attempt to stop this trend by discovering and securing the adoption of improved farm practices? Or should it endorse the trend as sound and encourage farmers in such areas to liquidate their investments and get out? If the latter policy were adopted, what was to become of the land?

In 1923 the College undertook an intensive study of farm abandonment in one county. During the next six years 40 areas were studied.[2] A number of significant facts emerged from these studies: (1) despite the fact that over 4,500,000 acres of land had passed out of agricultural use between 1880 and 1925, total agricultural production had steadily increased; (2) in areas of massive abandonment marked economies in the public services could be realized if the abandonments could be made permanent; (3) the restoration of farming in these areas would require increased subsidy from the people in the more productive areas in the shape of schools, roads, electric services, health facilities, etc.; and finally (4) abandonment had proceeded with a minimum of human suffering due to the fact that an abundance of alternative opportunities had been available relatively close at hand for the young people from these areas. Final abandonment had usually come with the death of the old people, whose closing days had been eased by remittances from their children who had found more remunerative employment in the cities of the state.

The College concluded that abandonment should be accepted as a normal and wholesome trend and that public policy should encourage the permanent transfer of the abandoned lands to forestry. Most of these lands, however, were in blocks too small for effective forest utilization by their present owners. The latter were under a

2. A. B. Lewis, *Methods Used in an Economic Study of Land Utilization in Tompkins County, New York*. Cornell University, Agricultural Experiment Station Memoir 160, April, 1934. *Land Classification*. Chapter XIX is devoted to the Economic Land Classification Studies in New York. Mimeographed copy of lectures given by A. B. Lewis in Land Economics (Course 206) at the College of Agriculture in the Winter and Spring of 1939. (Citations from these lectures will be by lecture number and page.)

standing temptation, consequently, to sell them to the unwary as farm lands. Since the state and the counties were under obligation to supply costly public services to all farm lands it was recommended that the state buy up such lands in areas of massive abandonment and dedicate them to forestry.

The State Reforestation Law of 1929 was a direct outcome of the Cornell studies of abandoned farm areas. It authorized the State Conservation Department "to acquire, by gift or purchase, reforestation areas of not less than 500 acres of contiguous land, and to plant and manage forests for the production of timber."[3] "The State was required to pay the local taxes but not the state and county taxes on the land."[4] A 1931 amendment to the Constitution authorized the expenditure of $20,000,000 over the 15-year period 1930-44 inclusive for acquiring up to 1,000,000 acres of land for reforestation under state management. To September 30, 1938, 413,688 acres had been acquired or contracted for at an average price of $3.89 per acre.[5] Within the limits of annual appropriations the state maintains a standing offer to buy lands classified as reforestation lands at not to exceed $4 an acre. Until recently, at least, this was frequently somewhat more than the market value of the land but it is felt to be an inexpensive method of preventing the revival of farming in submarginal areas.

In the execution of the law the Conservation Department must have an objective basis for determining what lands may be acquired. The task of classifying the lands of the state has been entrusted to the College. Under annual appropriations the College is now carrying out, county by county, soil surveys and land utilization and classification surveys.

The land utilization and classification surveys have as their objectives: (a) the identification of areas submarginal for agriculture, i.e., the "reforestation" areas required by the Conservation Commission, and (b) the classification of lands above the margin into fer-

3. NRPB, *Land Classification*, p. 125.
4. Lewis, Lecture No. 13, p. 3.
5. *Ibid.*, p. 4.

tility classes based upon the degree of intensity of use to which they may safely be put by average farmers. The first part of the program serves the needs of the Conservation Commission, the second part provides the basis for the research and extension work of the College among the farmers of the state. In areas in which the survey has been made the College's farm practice recommendations are directly related to the classes into which individual farms fall.

Seven principal classes have been recognized and mapped. The basis of classification is *intensity of use.* Classes I and II are areas regarded as better adapted to forestry and recreation than to farming, in other words as below the agricultural margin. Areas in which almost all farms have already been abandoned are put in class I. Areas in which most of the farms are still occupied are put in class II when the preponderance of evidence indicates that they will be abandoned if the farm houses, barns, fences, etc., receive no greater attention in the future than they have in the past. In class III areas, fair farms predominate. In classes IV and V areas the lands are characterized as "good" and "very good." The letter R added after the Roman numeral indicates that the land lies in a specified intensity of agricultural use class but that non-agricultural uses are important. Cities and villages are designated as residential areas without any attempt at subclassification.[6]

As of July, 1939, eighteen of the state's 62 counties had been surveyed in detail and a preliminary survey had been made of all the remaining counties outside the New York metropolitan area for the purpose of identifying areas of land classes I and II. The detailed studies, issued as Experiment Station Bulletins, have already proved their worth.

> The results . . . . are being used by the Agricultural Extension Service in its educational program, by the Experiment Station as the basis for research in Farm Management and Land Economics, by the State Conservation Department and the Federal Government in purchasing submarginal land, by the State Highway Commission in planning rural road improvements, by electric

6. Professor Lewis who was responsible for the Tompkins County survey—the model for all the subsequent surveys—has summarized the College's techniques in his 1939 lectures. The statement in the text is condensed from his lectures of February 21st and 24th.

utility companies in extending their lines, by credit agencies in studying their loan experience and shaping loan policies, by fire insurance companies in studying their experience and planning for the future, by tax assessors in valuing land, by persons buying farm real estate, and even by agencies selling commodities to farmers. The use of the maps gradually increases as they become better known. They are of value to farmers and to all other persons and agencies which contribute to agriculture in the hope of a return.[7]

Of particular significance to the South is the classification work of the Tennessee Valley Authority. This work involves: (1) topographic mapping, (2) soil surveys, (3) inventories of forest, mineral and recreational resources, and (4) a classification of the rural lands of the Valley. For the topographical surveys and the soil mapping the Authority has developed new techniques which demonstrate that the physical data essential to social and economic planning can be had at very reasonable costs. The soil surveys are being made jointly by the Authority and the land grant colleges in the Valley. The topographic maps and the soil surveys provide the basis for the other phases of the work.

The forest inventory provides for identifying and mapping existing forested areas and areas which appear to be better fitted for forestry than for alternative uses. Within the purchase lines, that is, within the areas which the Authority owns or will eventually buy in connection with its dam building program, the inventory goes into great detail "for the purpose of developing specific use programs and management plans for individual parcels of land." It seems very probable that the knowledge and the technical competence mobilized by the Authority will lead to the development of forest management programs of peculiar significance to the South where forestry is clearly destined to play a vital part in regional reconstruction.

Similarly the detailed knowledge being amassed regarding the mineral resources of the Valley promise to promote related industrial developments.[8]

7. NRPB, *Land Classification*, pp. 130-131.

8. An interesting problem can arise in connection with dissemination of this new knowledge. If the TVA were a private utility it could quite appropriately use the information to persuade enterprises to transfer their operations to the Valley so as to increase the sale of electric power. But the TVA is being built with national funds. If it under-

The Authority has also made a very detailed inventory of the scenic potentialities of the entire Valley as the basis for recreational developments. Within the reservoir property lines, areas are identified as parks, cottage colonies, docks, etc., and a time-table for their development is set forth. The recreational potentialities of each reservoir and of the system as a whole is being planned.

Our concern here, however, is with the Authority's work of classifying the rural lands of the Valley. How productive are they? Are they in the uses for which they are best adapted? Is their fertility being maintained, or depleted? What changes in prevailing use patterns would be desirable? In these new uses could the land support the present population? If not, how many would have to find nonfarm employment in order to permit those who remain to adopt these new practices? The rural land-classification surveys of the Authority are intended to provide answers to such questions as these.

After considerable experimentation the Authority adopted what it calls the "basin-wide unit-area" method of surveying, inventorying and classifying the rural land in the Valley States. All the land characteristics selected as significant for classification purposes are the same within unit-areas. Hence they differ markedly in size, ranging from a minimum of 200 acres to areas measured in thousands of acres. By an ingenious system of Roman and Arabic numerals and letters of the alphabet, expressed in the form of a short and a long fraction, the salient physical, social and economic characteristics of the land in each unit-area are indicated in a compact summary statement, formula-like in appearance.

The formula IV $\frac{4\ 5N344}{4\ 4132334}$ on a map tells the following story about a small area:

> Agricultural problems are very critical. The present agricultural use of the land is poor. Fields are small to medium in size, in many cases inter-

takes a promotional campaign, interests in other parts of the country will certainly attempt to block what they will regard as a sectional raid. The Valley States, communities in these states and the chambers of commerce in the area can and will exploit the information to the full. Even so, adversely affected communities are likely to resent the competition of the Tennessee Valley area more than if it had come about under the leadership of a private utility.

rupted; there is considerable idle land; prevailing uses are low-grade, inefficient or destructive, under a regime ill suited to the land. These inefficient or destructive practices are probably inevitable as long as the land remains in agriculture because it is for the most part poorly suited to all forms of arable farming even under proper land management. In many cases the best use would be in grazing. At present the land is in subsistence farming without emphasis on any particular crop. Fields are small; more than one-third of the land is idle and the farmsteads and the equipment are poor. The terrain is hilly with slopes ranging from 20 to 40 per cent. Drainage is thorough, due presumably to the steepness of the slopes, but for this same reason gullying and sheet erosion occur to a degree detrimental to agricultural use. Soil is shallow, of low productivity, moderately stony with considerable rock outcropping.

All these facts as expressed in the formula are recorded on aerial mosaics. In the central office the boundaries and fractions are transferred to planimeter maps so that the area of each unit can be determined. From an inspection of the maps men in the central office undertake to classify the unit-areas according to their potentialities. Three grades are recognized: (1) land suited to intensive uses (with emphasis on cropping); (2) land suited to extensive uses (with emphasis on pasture); and (3) land suited to nonagricultural uses.[9]

The pertinence of the information contained in these rural-land classification maps to rural planning is obvious. In combination with other data they reveal, among other things, the capacity of areas to support rural electrification; they provide information essential to intelligent road and school building programs and to more equitable taxation of rural lands; they show where erosion control programs are needed; and where population relocation is the key to permanent areal adjustment.[10]

Enough information is now available to work out sound plans for the utilization of the country's rural lands. The leadership at

9. NRPB, *Land Classification*, p. 122.

10. In 1938 the Department of Agriculture and the Association of Land Grant Colleges and Universities launched a uniform land classification project to be carried out in every rural county in the United States. (The Mount Weather Agreement.) As of July 1, 1941, 47 State Committees had been organized and classification work had started in 1,891 counties. Work was stopped in 1942 because of the war. A description of the method is to be found in "Land-Use Planning Work, Outline No. 1," U. S. Department of Agriculture, February, 1938, and a useful account of procedures and purposes in NRPB, *Land Classification*.

the present time comes largely from the land-grant colleges and the United States Department of Agriculture. Inevitably the point of view is that of the specialists in agriculture. It is too much to hope that they will be able to see the rural problem, either in its local setting or in its national setting, in proper relationship to the larger problem of national adjustment. It would be desirable, in our opinion, to transfer the function, at the national level to the National Resources Planning Board, and, at the state level, to the State Planning Boards. Otherwise there is a very real danger that the work will fail to take account of some of the most fundamental factors responsible for maladjustments in the extractive segment of the American economy. Working in isolation, this leadership may serve a pressure group rather than the people as a whole.[11]

Rural Zoning

Land classification stops just short of action. It deals essentially with fact-finding, analysis, recommendation and education. Even in a society committed to the *laissez-faire* philosophy of government this work would be abundantly worth while. It provides the information needed by millions of individuals attempting to earn their living in a complicated, changing and interdependent world. It furnishes the basis for effective public education and for the action programs of public authorities acting within the narrow limits set by the *laissez-faire* philosophy. In brief, well executed land classification maps and the accompanying analyses can do much to stop destructive land uses that are due to ignorance. But where progress through education is too slow more positive interventions may be needed.

In New York positive intervention has taken the form primarily of submarginal land purchase by the State. The purpose is to block re-entry onto these lands, and to hasten abandonment by a standing

11. That our agricultural leaders are aware of this danger is evidenced by the Wallace-Delano Agreement of 1939 between the former Secretary of Agriculture and the Chairman of the National Resources Planning Board. This document "provides for exchange of information and clearance of plans between the State agricultural advisory committees and the State planning boards, as well as for interlocking membership wherever possible." (NRPB, *Progress Report.* June, 1941, p. 24.)

offer to buy them at a shade above the current market price. The purchased lands are then retained in public ownership and dedicated to forestry. In Wisconsin and the northern Lake States generally (Michigan, Wisconsin and Minnesota) public intervention tends to take the shape of rural zoning. Land classification there is also for the purpose of identifying areas where farming can continue only by virtue of public subsidies. Once these areas are identified, an effort is made to prevent further agricultural settlement by the application of zoning ordinances. Zoning represents a use of the police power. It is a device for giving organized and effective community support to locally determined land use plans. It involves the setting up of use-districts within which specified land uses will be permitted and others prohibited. Zoning takes away from individuals some of the rights of private property while land purchase transfers all the rights to the State. In general zoning cannot be retroactive. It is thus relatively ineffective as a method of correcting past abuses. From the long run point of view, however, it is of great significance. Without it, correction, brought about through public programs or through the decisions of individual operators, rest on a shaky foundation. Agricultural settlement has moved in and out of the cut-over areas of the northern Lake States and the semi-arid portions of the Great Plains for several generations now. The present movement for zoning is designed to prevent this backwash of population, to create a situation in which only a one-way movement of population will be possible until a satisfactory adjustment has been reached.

One of the great merits of zoning is its flexibility. It can be used not merely to block off areas entirely from agricultural settlement but, within areas suitable for agriculture, it can be employed to rule out soil destroying practices. Another merit is its economy. The State need not compensate individuals for the rights withdrawn from their "bundles." At the present time the Federal Government is using the expensive method of educational bribes to induce farmers to abandon traditional soil mining practices. These bribes are probably a part of the necessary price we pay for past neglect.

Their ultimate justification will depend upon whether or not farmers will follow these practices after the subsidies are withdrawn. Unless we are prepared to prohibit them by zoning, the old abuses may reappear with the termination of the present subsidies.

Only the states may use zoning to correct land use practices. Should they fail to act we may have to choose between (a) a continuation of the present expensive educational bribes of the Federal government; (b) a reversion to the soil destructive uses of the past or (c) a vast extension of public ownership and operation of rural lands. Zoning is a conservative device for preserving as large a domain for private enterprise as possible.

In a democracy, the extent to which zoning can be used depends upon public understanding and support. Since it touches the lives of the people very intimately, it is of importance that the majority of the population accept its prohibitions as reasonable and desirable. A national zoning law, even though constitutional, would probably be as unenforceable as was the national attempt to prohibit the use of alcoholic beverages. Even a state zoning law, secured by the votes of the urban population, impatient of their heavy contributions to the public services in depressed agricultural counties, would probably be unwise. Legislation of this type must rest upon a large degree of local initiative.[12] Very wisely, the states which have so far approved of the principle of zoning have contented themselves with enacting enabling legislation. It is then up to county leaders to win over a majority to the idea. Zoning is thus a democratic device. Its meaning and significance should figure in every course in civics in rural and urban school curriculums, it should be emphasized in the courses in government and economics in our universities and state

12. An effective elaboration of this thesis is to be found in Bernard Bosanquet's *The Philosophical Theory of the State,* (New York, 1899). His argument culminates in the following striking proposition: "For the possibility of promoting freedom or well being by compulsion depends very greatly indeed on the unity of habit and experience which binds together a single community. The more life has in common, the more definite the automatic arrangements you may safely make in promotion of it. The rules of my household, which inconvenience its members no more than their clothes do, would produce a rebellion if they were enforced by law even throughout a village" (p. 195). In this day when all the best minds are urging centralization Bosanquet is worth rereading.

colleges of agriculture. Finally and not least important, the lawyers coming through our schools of law should be acquainted with the economics of zoning in their courses in real property. Otherwise our judges will unwittingly force upon us more radical and more expensive remedies.

Wisconsin has pioneered in the use of zoning. The motivation there was financial. Public opinion was aroused over the costs of the public services provided to scattered settlers in its cut-over areas. As long as these lands were open for settlement the state and the counties had to provide roads, schools and minimum public health services. A farmer on a so-called farm is said to have written to his county superintendent:

> My wife still has her teaching certificate. Couldn't you give her a job teaching the children at home rather than have them travel 24 miles a day to and from school? If you can't, well, I have a Ford that will run. How about giving me a job driving them back and forth to school.[13]

The county had no alternative, so the story goes, but to employ the wife as the teacher and to pay the man to maintain the road during the summer and drive his wife and children to and from the school in winter. It would have been far cheaper to buy him out except for the fact that another settler could have come in and confronted the county with a similar demand.

New York and Wisconsin have attacked the problem. In New York the numbers involved are relatively small and the presence of an abundance of alternative opportunities near at hand has permitted of an orderly evacuation of areas which have become submarginal for agriculture under modern conditions. The cut-over areas of the Great Lakes are isolated and at a considerable distance from alternative opportunities, but the numbers involved are also small, and birth rates, while above replacement levels, are not exceptionally high. The Lake States themselves, particularly Michigan and Wisconsin, are relatively prosperous and therefore able to finance an evacuation program. A number of the counties in

13. Quoted from an undated release of the Bureau of Agricultural Economics, United States Department of Agriculture, *Rural Zoning and Your County*.

northern Wisconsin have combined zoning and land purchase and have found that it pays. One county, for example, was able to save $1,800 a year in taxes by buying out five settlers in a restricted district.

In the South everything combines to render the solution difficult. The absolute numbers involved are large[14] and birth rates are very high; alternative opportunities lie remote for the most part from the areas which should be evacuated, the people themselves, because of poor educational facilities, are ill-equipped to seek these remote opportunities, and the counties and states in which they lie are all poor. Finally, it needs to be noted, that the intermingling of poor and good lands, such as is to be found in many parts of the Southern uplands, enormously complicates the task of zoning.[15] The New York and Wisconsin use of the device to block out settlement here and there will not suffice. In the South zoning must be used in the way cities have long used it, to impose different types of utilization upon contiguous lands, frequently lands within a single farm enterprise. In brief, rural zoning in the South is needed to prevent population backwashes, and, in addition, to reinforce sound agricultural practices on individual farms.

Public opinion in the South is far from ready for such heroic measures. Yet, until zoning is used in some such fashion, the prospects are that the large sums which have been spent in the past, and the larger sums which may be spent in the future, to adjust population to underlying resources, will fail to accomplish any permament results. In a later chapter we shall appraise some recent efforts to deal with the rural South and shall venture to indicate what would seem to be the appropriate policy if our objective is to get people into places and into jobs in which they can make a living without perpetual subsidy.

14. In *Migration and Economic Opportunity* estimates of over-population in the Southern Appalachian Coal plateau and the old Cotton Belt ran as high as 640,000 and seven millions respectively (pages 122 and 162).
15. My colleague, Professor J. R. Whitaker of Peabody College kindly drew my attention to this point.

Chapter VI

TAXES AND TENANCY

The General Property Tax

WHILE students of public finance debate the propriety of regulatory taxation, statesmen and law makers, and pressure groups generally, never hesitate to advocate taxes for ulterior purposes. In any event the possibility and the desirability of maintaining a neutral tax system decreases as the level of spending and taxing increases. With combined federal, state and local taxes destined to absorb one-third or more of the national income for many years after the close of the present war, the structure of the tax system cannot fail to influence the distribution of wealth and the manner in which resources will be used. The scholar might as well recognize this situation and attempt through his analysis to shape the tax system as a whole in a way to promote, rather than retard, stability of the economic system and effective resource utilization.

Our concern in this chapter is with a relatively narrow aspect of this problem—namely with the effect of the general property tax on land utilization. This tax is still the mainstay of local finance in every part of the United States, accounting for 92 per cent of all local tax revenues in 1938 and for about 70 per cent of all direct taxes paid by farmers in 1934.[1] How does this tax affect land utilization?

The general property tax is a tax on the market value of all property, real and personal, tangible and intangible. Students of public finance are virtually unanimous in their condemnation of the tax.

1. Eric Englund, "Rural Taxation" in the *1940 Yearbook of Agriculture: Farmers in a Changing World*. (U. S. Department of Agriculture, U. S. Government Printing Office, Washington), p. 774.

More than thirty years ago Professor Bullock of Harvard University wrote:

> The United States has the most crude, inequitable, and unsatisfactory system of local taxation—if, indeed, we can call system that which more resembles chaos—that can be found in any important country in the civilized world.[2]

Twenty-five years later (1921) a South Carolina Committee likened the administration of the tax to such outlaw businesses "as the gentle art of cracking safes or of distilling moonshine whiskey." And in a later section of its report the same Committee expressed the hope that "the curtain can be dropped forever upon the spectacle of a proud State levying tribute upon her own citizens under the aegis of the black flag!" [3] In more temperate language the South Carolina State Planning Board characterized as "a farce" the entire general property tax system.[4]

Intangibles almost entirely elude the eyes of local assessors, and the assessment of real estate and tangible personalty is notoriously inaccurate. The bulk of the burden invariably falls on real estate. It is very important, therefore, that real estate should be uniformly assessed. The law usually specifies that assessment shall be on market value or some stated percentage thereof. Too little real estate, however, changes hands on the basis of voluntary sales to provide the assessors with a reliable guide to market values. The general tendency is to over-assess small holdings. The tax as a whole is regressive, as between property owners—that is to say it takes relatively more of the poor man's income than that of the rich man.[5] For Mississippi, for example, "available data indicate that, in terms of crop yields and land values, the tax load on the poorer grades of crop land is 3 to 5 times as great as the tax load on the better grades of land." [6]

2. C. J. Bullock, *Selected Readings in Public Finance,* 2nd ed., p. 289.
3. Quoted from South Carolina State Planning Board, *The Fiscal System of South Carolina,* December, 1939), pp. 13-14.
4. *Ibid.,* p. 64.
5. See Englund, "Rural Taxation," *op. cit.,* p. 775, for literature in confirmation of this assertion.
6. From First Progress Report of the Mississippi State Agricultural Policy and Planning Committee, *Some Essentials of a Desirable State Agricultural Program,* p. 122 (June 1, 1943).

But the tax does more than violate the principle of equity. As a tax on land it constitutes an obstacle to sound land utilization. This is because of the peculiarities underlying the formation of land values.[7] Land like any other economic good is valuable because it is useful and scarce. Land as such is not scarce; it is only the superior grades of land that are scarce. And the greater the superiority, the greater the value of the services. Furthermore, a given piece of land will presumably yield these same services year after year. In a static state these services would presumably be identical in kind and in value year in, year out. Hence the valuation of such land would be simple. It would consist of capitalizing present income. Present value would equal present income divided by the current rate of interest. Expressed algebraically:
$v=\frac{a}{r}$ where V is the present value of the land, a is the net value of the services of the present year, and r is the current rate of interest.

But in this changing world the present value of any piece of land is the sum of a changing series. If the value of these annual services is tending upward or downward, the present value of the land will exceed or be less than the capitalization of the value of this year's services. The situation may be expressed albebraically by saying that $v=\frac{a}{r}+\frac{i}{r}2$ where i equals the average annual increase or decrease in the value of the annual services over those of the base year.[8]

For a generation prior to the War of 1914-1918 the tendency had been for the value of land to exceed the capitalization of its present income. The owner of such land had to content himself, therefore, at any given time, with a lower return than he could secure if he were to sell his land and put the proceeds in an investment of like security. He expected to be recouped in the long run by the subsequent rise in the value of the services of the land and hence in

7. The following argument is reproduced with only minor verbal changes and with permission from an article by the author entitled "Classification of Land for Taxation" which appeared in the November, 1927 issue of the *Quarterly Journal of Economics,* pp. 95-104. This article was written at a time of rising urban and suburban and falling rural land values. The depression collapse of land values throughout the United States amply confirmed the assertion that anticipations play such a major part in market values as to render market value unsuitable as a basis for taxing land.
8. C. R. Chambers, "Relation of Land Income to Land Value" (U. S. Dept. of Agriculture Bulletin No. 1224), p. 29.

the value of the land itself. There was, nevertheless, a perpetual temptation for the man with small waiting power to sell his land and enjoy the immediately higher return on his money invested in the land. This temptation was very much increased if his taxes were based, not on the value of this year's services of the land, but upon the present value of all the future services of the land. This is precisely the defect of our general property tax. The speculative future cast a dark shadow on present utilization.

The situation becomes particularly acute in the farm lands near a rapidly growing city. Between 1920 and 1925, 177,000 acres of land in the three counties around Detroit passed out of agricultural use,[9] and as many more, it is safe to say, were in the process of abandonment. But 177,000 acres can house 3,500,000 people. (This is figured on the conservative assumption of five lots to an acre, and four persons to a family as an average for residential subdivision purposes.) This was about three times the population of Detroit at that time. That the shift in land utilization was premature is evident; that it involved huge social waste is equally evident; that our method of taxing land is in part responsible for this waste, is not so generally understood.

Land in the vicinity of a growing city was chosen to illustrate the point. Other classes of land might have been taken equally well. Take forest land for example. Reasonable forestry is impossible if the general property tax is strictly enforced. The tax makes it uneconomical to limit the cut to the rate of the annual growth, in the case of mature stand, and reforestation of cut-over land is out of the question. Here, even more than in the first example, present value is too far out of line with the income obtainable from reasonable cutting. Mineral lands provide another example. No mine owner can afford to hold back minerals for a more favorable market if he is taxed annually both on the present value of the land and the present value of the mineral. In the case of urban land, the general property tax forces the premature destruction of a district for one use before it is really needed for a new and higher use. Thus the

9. U. S. Census of Agriculture: 1925. Michigan Statistics by Counties.

probability that a residential district will ultimately shift over into high-class business use, for example, gives it a speculative value and subjects it to a tax too heavy for its present use. The residents move away and fine single-family homes are converted into boarding houses or tenements. Everywhere then there is waste. Either the tax promotes the ruthless exploitation of limited or slowly growing resources, or it forces land marginal between two uses out of one use before the community needs it in the second use.

The wastes in land utilization are generally admitted. The explanation here offered, however, will hardly gain the same general acceptance. It will be argued, for example, that an exclusive increase in the tax on land is capitalized and reduces *pro tanto* its selling price, and that thereafter the future utilization of land can be in no wise affected by the tax as such. If farming still remains the most profitable present use for the land, it will remain in farming. Similarly, if residential use is the best present use for the land in an urban district, it will remain in that use. True, the man of small means may be forced to sell out, but the purchaser who has paid less for the land by the capitalized amount of the tax increase, does not feel the added tax, which, consequently, cannot in any way influence his decision. The admitted wastes in land utilization, therefore, are due to bad decisions, and not to high taxes—to exaggerated optimism regarding the future, and not to increased burdens in the present. Hence it follows that the remedy lies either in the education of land owners, or in greater public control, or in both.

The statement of incidence behind this argument is true. But there is, nevertheless, a fallacy, which consists in the assumption that it is a matter of indifference who owns the land. If it can be shown that our method of taxing land promotes a socially unfortunate redistribution of land ownership, then it may still be asserted that taxation is in part responsible.

The effect of land-value taxation on land ownership needs statistical investigation. There are strong *a priori* grounds, however, for believing that it tends to promote tenancy and the concentration

of land ownership in the hands of a wealthy speculative class. This concentration will naturally vary directly with the importance which future estimates play in present values. It will be greatest in those marginal areas over which the shadow of a different and higher use has fallen. In these areas present incomes are most out of line with present values. And with taxes on present values the owner-users, who are dependent on present income for their living, are forced out. The land drifts into the hands of, economically speaking, absentee owners—speculative owners.[10]

If the land is to be used as wisely after this change in ownership as before, the new absentee owners must lease it. The assumption underlying the argument here criticized is that, so far as wise land utilization is concerned, tenant-occupied land is just the same as owner-occupied land. But generally this is not so. In the case of agricultural land, for example, the speculative owner will have a hard time finding satisfactory tenants. Most of the old owners will get out after selling out. It is not a matter of indifference to them whether they own their farms or lease them. Moreover, since the new owner looks for a new and higher use at no distant date, he is hardly likely to offer sufficient security of tenure to attract as tenants other who would like to farm conservatively.[11] If he leases at all, it will be to poor farmers who will practice predatory methods of cultivation. This is probably one reason for the run-down appearance of so many farms in the neighborhood of growing American cities.

But there is another reason why the speculative owner is more likely to abuse the land than were the previous occupying owners. His point of view is very different. He is more interested in quick

10. Chambers, in his study already referred to, has shown that tenancy is greatest in those agricultural areas in which land incomes have increased most rapidly over a recent past and in which land values are most out of line with present incomes. More recently the same relationship has been shown for farm lands in Oklahoma where oil provided the speculative influence. (James Salisbury, Jr. and Leonard A. Salter, Jr. "Subsurface Resources and Surface Land Economics," *The Journal of Land and Public Utility Economics,* August, 1941, pp. 270-279.)

11. It may be argued that it is the prospect of a radical change in land use that introduces the uncertainty of tenure. This is true, but the change in ownership introduces a new and still more upsetting element, and our tax system should be designed to decrease rather than increase this uncertainty.

turns and profits, even though society and the individual both lose heavily thereby. He is likely to be skilled in the arts of salesmanship, cunning in persuading the small speculator to take a flyer in some premature venture. But for the tax the natural tendency would be for ownership to remain in the hands of those whose interests are most closely in harmony with social interests. Because of the tax the community invites and promotes abuses in land utilization.

The above argument is directed against the American land tax on a rising real estate market. After 1920, for agricultural lands, and 1929 for most other classes of land, valuations fell. The market valuation formula operates equally unsatisfactorily under these circumstances. After a period of falling prices for the services of the land the $\frac{1}{ri}$, or expectation factor in the formula $V=\frac{a}{r}+\frac{1}{ri}$, becomes negative. Land values tend to fall well below the capitalization of current earnings. It proves quite impossible for local assessors to apply "the willing buyer-willing seller" concept to land assessments in the face of inflexible revenue requirements. Assessed values tend to exceed selling values. The tax burden is likely to prove oppressive for several reasons: (1) During the period of buoyant optimism and easy tax money local governmental services tend to be expanded beyond the long run capacity of the local area to support them. (2) Property owners, during that period, are also likely to have over-mortgaged their properties in terms of current incomes. (3) The submarginal land brought into use during the boom now possesses no tax-paying ability and with the expectation factor negative the owners are not willing to pay taxes out of other income. (4) With an increasing proportion of the prematurely or over-developed land tax delinquent, the burden of supporting local services comes to rest with crushing effect upon an ever narrowing group of solvent property owners.

In a recession such as that which set in in 1929 or after a local real estate boom, the American method of taxing land tends to force into bankruptcy the conservative property owner. Recent state

tax-limit and homestead exemption laws reflect the desperate efforts of real property owners to escape the crushing toils of this tax.

What is the remedy for this situation? The single taxer assures us that the private receipt of rent is the cause and that the remedy is to tax it away. This remedy is too simple, quite aside from the injustice to one class in society who acquired title to the land with the consent and approval of the whole group. But more than that, it presupposes that we can deprive land owners of one of the things that make land ownership desirable, yet continue to secure from them a socially wise direction of our land resources. If society takes away the entire economic rent, it must introduce *pari passu* social control of land utilization. The single tax, or a drastic increment tax, without social control will only accentuate the wastes mentioned above. The thorough-going socialist is more consistent. He too would take for society land income, but would at the same time, and very properly, place upon society the responsibility for directing land utilization.

Opponents of the single tax and of socialism, while rejecting blanket land nationalization, are more and more recognizing that some degree of social control is necessary and that the degree of control will vary with the kind of land involved.

It is here proposed to discuss only one phase of the question of control: how our system of taxing land may be made to harmonize with rather than obstruct wise land planning.

At first glance the income tax would seem to be the remedy. It would fall on present income. In this respect it is unquestionably superior to the general property tax. There are, however, serious objections to an income tax as the exclusive method of taxing land. In the first place, the revenues from land are too fluctuating to serve as a basis for local taxation. The services which the localities render property owners must go on whether income is earned or not. In the second place, income taxation tends unduly to encourage speculation in land. Land held idle would pay no tax, whereas under the general property tax it pays, and (very properly) pays heavily, though no more heavily than if kept in its previous use. If

land were taxed according to its potential present income rather than its actual income, these objections would lose force.

What we are looking for is a system of taxing land, not upon its market value, nor upon its actual current income, but upon the income which, under ordinary conditions, it may be expected to earn in the use to which it may reasonably be put. This is the principle underlying the method followed in continental Europe—the *cadastral* method of taxing land. And since European land is used and not abused, it may reasonably be assumed that this method of taxing land is in harmony with wise land utilization. Consequently it deserves respectful examination for possible constructive suggestions for American reform.

The Austrian land tax as it existed before the war was typical of the continental method of taxing land.[12] Non-residential land was classified into eight classes as follows: crop land, meadow, market-garden or truck land, vineyard, pasture, mountain pasture, forest, and finally, lake, swamp, and marsh land. Any land not falling into one of these classes was either entirely exempt, or was known as *Parifikationsland,* and classed for tax purposes with the immediately adjacent land. Within each class provision was made for eight grades according to productivity. Thus there were 64 grades of land. Every acre of non-residential land in Austria was assigned to one or another of these classes and grades. And for every grade of land in every district there was an assumed average net income which an average owner might be expected to earn. He was taxed upon such an income, whether he derived more or less in any given year. The figures of average expected earnings were the result of thorough economic surveys of prices, coats, and yields, while the assignment of lands to their proper classes was made on the basis of an elaborate land inventory of all significant physiographic and economic factors. The results of the inventory were shown on detailed maps. The maps revealed not merely exact metes and bounds of properties, but all the permanent characteristics of the

12. See article by the writer in the *Journal of Land and Public Utility Economics,* April, 1925, for description of this tax.

land, such as roads, paths, streams, bridges, lakes, swamps, character of the soil and sub-soil, ease of cultivation, moisture content, and other details. It took money and time to make these maps, but once made they could be kept up-to-date at little cost. The law provided for reassessment of assumed land income every fifteen years. Between assessment periods lands were taxed according to the assumed incomes of their class and grade. Where an owner improved his land so as to bring it into a higher grade within its class, his tax was not increased until the next general revision. Similarly, if he changed his land over from a lower to a higher use, he was not liable to any increase in tax for eleven years. Thus improvements to land were rewarded, not penalized. Land could be taken out of forest utilization only after express permission had been obtained. An owner could be compelled to replant an area deforested without permission.

Urban land was usually taxed according to its actual income and at a very much higher rate than agricultural and forest land. Land outside the city limits held idle for subdivision purposes was classed as *Parifikationsland,* and taxed as the adjacent agricultural land. Once sub-divided and improved, it was taxed according to its real income.

This method of taxing land was in some ways superior to ours. It had no tendency to drive land out of agriculture before it was needed for residential purposes. If anything, it put too great a premium on keeping it in agriculture. The result was that the city expanded outward too slowly. New land was taken in only after congestion within the city had reached undesirable proportions. That is one reason why three- and four-story tenements are seen at the very boundaries of the European city. From the outside they give the city a fortress-like appearance, in striking contrast to American cities, whose boundaries are only ascertainable from statutes. Agriculture flourishes under the very shadow of European cities, whereas in the United States one must pass through miles of half-settled country before reaching really agricultural lands. The European city draws a surprising proportion of its daily bread from

its immediate environs, whereas our perishable supplies come in fast refrigeration trains from the four corners of the country. If these distant lands were uniformly of greater fertility than the idle lands around our urban centers, there would be no objection to their abandonment, but there is no reason to believe that this is ordinarily the case.

What we need is a compromise between the European and the American systems of taxing land. We need a system that will not, for example, penalize the keeping of land in agriculture nor yet treat with equal leniency lands held out of use for speculation. The system should, moreover, provide for periodic reclassification to prevent a lower use from strangling a higher use. Finally, the system should be based on values and not on income, because of our familiarity with and predilection for this method of taxation.[13] Such a compromise is easily devised.

The valuation we are looking for is the capitalization of the current earnings which land of a given grade might be expected to yield. In other words, the valuation for tax purposes should be according to the formula $V=\frac{a}{r}$, and not according to the formula $V=\frac{a}{r}+\frac{1}{r^n}$. Cadastral values rather than market values should be used; but only as long as land remained in a use which entitled it to this valuation. If it were taken out of one use and placed in another also provided for in the system, the valuation in the new use would naturally apply. If, however, land were taken out of one use and left idle to the detriment of society, it should immediately be assessed according to its higher market value.[14]

A prerequisite to such a system is an accurate land survey and a classification and mapping of all the lands of a state. This preliminary requirement is not an objection to the system. On the contrary, it is an additional recommendation. Students of conservation and students of taxation are at one in their demand for accurate land maps—maps not merely of exact metes and bounds of

13. In states which have exempted personalty with the introduction of an income tax, the use of cadastral incomes instead of cadastral values might be preferable.
14. It might be administratively simpler to substitute a distinctive class for idle lands, with an assumed income of double or triple that of the adjacent lands of its natural class.

properties, but of physical, topographical and economic characteristics.[15] European countries have long had such cadastral maps.

Recent developments in land classification, as described in the preceding chapter, provide the basis for the shift-over here advocated. Land classification should be tied in with reform of our antiquated and inequitable property tax. North Dakota has recently done this very thing. Rural lands in three of the western counties in that state have been assigned to one of two use-classes—cropping and grazing lands—and each tract of land in each county is given a rating expressed as a percentage of the income productivity of standard tracts. The task of the local assessors is thus to assess the standard tracts and then apply the fractional ratings to all the remaining lands.[16]

Ideally the land classification work ought to be done by the State Planning Commissions. It is doubtful, however, whether these new agencies have as yet gained sufficient status to be intrusted with the task. In states with strong State Tax Commissions this agency might be the most appropriate one for the time being. In any event the preponderant influence of agricultural interests in rural land classification needs to be diluted.

A classified property tax would be much easier to administer, once the difficult phase of land classification had been completed. The main task then would be to work out average physical crop yields for lands of various classes and grades, average prices for all the crops produced in the state, and average costs. Cost figures would vary slightly from county to county because of difference in transportation charges, climatic risks, etc. The State Department of Agriculture might be charged with the calculation, periodic revision and certification of these figures to the Tax Commission. The latter could then certify them to the local assessors. The local assessors in turn, with the help of county land classification and land ownership maps would figure out the total assessed income of each resident real property owner and assess *in rem* properties owned by

15. Such maps are of great legal significance as well.
16. National Resources Planning Board, *Land Classification*, pp. 142-3.

absentee landlords. They might also be charged with noting on their maps shifts in the actual uses of land. Essentially, however, they would be responsible for the relatively simple task of applying the figures furnished by state officials to each class and grade of land in the county. No chance for favoritism. A task well within the competence of local tax assessors.[17]

These "assessed incomes" could easily be converted into "assessed values" by applying to them an agreed rate of interest. This valuation is not only better for tax purposes but also for lending purposes. The amount which an owner can safely borrow on his land is related to its earning power much more directly than to selling value in which speculative and non-economic considerations figure.

It is significant that the Farm Security Administration, in connection with its tenant-purchase program, recently instructed its appraisers to shift from prevailing market value to the capitalization of farm earning capacity. Since its loans are to cover the full purchase price of farms this method of valuation is apparently regarded as complying with the provisions of the Bankhead-Jones Act regarding the determination of farm value. Perhaps the courts would uphold the valuation of rural lands for taxation on the basis of capitalized "cadastral" incomes, particularly, in view of the notorious abuses that have resulted from efforts to appraise on the basis of actual sales. If not, a constitutional amendment would be necessary.

The type of tax here proposed would facilitate the development of home gardens on the urban fringe and indeed within cities.[18] Garden lands could be classed as such and taxed accordingly. This would bring down the carrying charge and permit persons of moderate means to buy small acreage plots. As more intensive utilization becomes desirable a shift in classification would provide the inducement for opening them up to a more intensive use.

Tax reform will not solve the problem of soil conservation. In-

17. In our final chapter, however, it is recommended that the administration of this tax be transferred to the State.

18. See page 95 above.

deed taxation, except in the case of forest and mineral lands and perhaps of lands on the fringes of our cities, is a minor factor in the total situation. But it should not constitute an obstacle in the way of conservation. The time may not yet be ripe for a change such as has been here suggested. It is time, however, to begin discussing the problem and exploring possible remedies. Tax reform belongs in the list of problems which deserve continuing study in connection with the formulation of long range plans for the conservation of the South's soil resources.

Certainly the inconsistency inherent in present policies is clear. Our system of taxing land on its speculative market value contributes to land use abuses. These abuses are then cited as evidence of the need for increased restrictions on the decisions of land owners regarding ways of using their properties. Reform groups urge public land acquisition as the best solution of the problem of lands at various margins. The city should buy up slum areas. The city or the county should retain title to tax delinquent lands on the urban fringe. The over-grazed lands on the Great Plains should be returned to the public domain. The Federal and state governments should buy up the forest lands. After the people, through their governments, have promoted the misuse of land, it is suggested that the remedy lies in more government even to the extent of full ownership. Surely, if our hypothesis is correct, that the preservation of a broad area of free enterprise is essential to the maintenance of democratic institutions, it would follow that the first task of our representatives is to change control measures which promote anti-social reactions on the part of the people before voting to curb these reactions by further restrictions on the people's freedom of action.

Tenancy

The Southern Region has the highest percentage of tenancy in the nation but the trend is more sharply downward there than in other parts of the country.[19] In 1930 when the tenancy ratio

19. The figures in this and the next paragraph are taken from the 1940 Census of Agriculture—The United States Summary, First Series.

for the United States was 42.4 the state ratios in the Southern Region ranged from a high of 72.2 in Mississippi to a low of 28.1 in Virginia. The corresponding limits ten years later were 66.2 and 25.2. Using Arkansas as representative, the Region's tenancy ratio fell from 63.0 to 53.3, a decline of 15.4 per cent. The national decline was from 42.4 to 38.7—a decline of 8.7 per cent. In 1940 seventeen states, or almost one-half the states outside the Southern Region, had tenancy ratios falling within the range exhibited by the states of the Southern Region.[20]

In the six states indicated by stars (see footnote) the 1940 tenancy ratio was higher than the 1930 ratio whereas the trend was uniformly downward in the Southern Region. Furthermore there was an increase in tenancy in seven of the remaining 20 "low-tenancy" states.[21]

The decline in tenancy in the United States as a whole was due in large part to the displacement of sharecroppers in the South. In round numbers 235,000 of the 303,000 decline in tenants occurred in the sharecropper category. For most of these sharecroppers the shift was not up the "agricultural ladder" but down into the status of "wage hands," "resident laborers" or regular farm laborers.[22] The decline in sharecropping was 50 per cent greater among whites than Negroes in the Southern Region in the period 1935-1940.

Regardless of one's interpretation of this downward trend, the welfare of the rural South will be bound up for years to come with the fate of its huge tenant class. So far the institution of tenancy has served the people and the land badly. Can it be made to serve them well? If not, serious social disturbances may be in store. The history of Ireland bears witness to the danger.[23] This possibility is the larger because the bulk of the tenants are white. Will the re-

20. Arranged in ascending order these states are: *Idaho (25.2); Maryland (26.1); Ohio (26.3); *Montana (27.8); Indiana (28.3); Minnesota (32.3); Delaware (32.6); Missouri (35.6); Colorado (37.2); Illinois (43.1); *Kansas (44.9); *North Dakota (45.1); Iowa (47.6); Texas (48.9); *Nebraska (52.8); *South Dakota (53.0); Oklahoma (54.4).

21. Massachusetts, Wisconsin, Utah, Washington, Oregon, California and Nevada.

22. See note entitled "Fewer, Bigger Farms" in *The Agricultural Situation*, January, 1942, pp. 16-17. (U. S. D. A.)

23. See John E. Pomfret, *The Struggle for Land in Ireland, 1800-1823* (Princeton, 1930.)

gion's pure Anglo-Saxon stock accept poverty and insecurity any more docilely than did the Irish peasants?

As European experience shows, the trouble with tenancy in this country is that it has not been subjected to the necessary social controls. Ideally tenancy has a constructive role to play in an agricultural society. It can be a means by which men with an aptitude for farming, but without the means to purchase a farm, gain access to the land; a ladder up which the able and ambitious can climb to ownership. It should also provide an apprenticeship for all and a career for those who prefer to forego the risks and costs of ownership. It should and can contribute to the welfare of the agricultural group as a whole and to the welfare of the land. To do this the system must be able to enlist the interests of the landlord and the tenant in the soil and in its potentialities.

Economists are pretty well agreed as to the principles which should govern the division of the gross product of the land between landlord and tenant in a regime based on private property. The landlord is entitled to that part which represents the peculiar contribution of the land plus a reasonable return on the capital improvements which he himself makes in the land. The contribution which any particular plot of land makes is peculiar to that piece of land. It is determined by its superiority with respect either to fertility or situation over marginal land. Marginal land is land which, at prevailing costs and prices, yields enough to provide a reasonable return for the labor and capital used in its cultivation. It yields no "rent" in the sense in which economists use the term, and has no value. In practice such land usually has some value because owners hope that at some future time it may yield rent, and because title to it gives the owner a legal claim to the products of the land and to any capital improvements that he may make upon it. Marginal land cannot, however, support both a landlord and a tenant, and, in fact, tenancy is uniformly low in poor land areas. Conversely tenancy becomes increasingly possible and frequent as land improves in quality. Bolivar County, one of the rich Delta counties of Mississippi, for example, has more than 90 per cent of its farms under tenancy, while

Hancock, a poor soil county on the Gulf, has barely ten per cent. In 1935 five fertile Mississippi Delta Counties had more tenant farms than the following 13 states: Arizona, Connecticut, Delaware, Maine, Massachusetts, Nevada, New Hampshire, New Jersey, New Mexico, Rhode Island, Utah, Vermont and Wyoming.[24]

This rent or superior productivity of the better lands can be capitalized and bought and sold in the market place. The higher the rent, the higher the value. The man who buys land pays the former owner in a lump sum all the future rents from that land in so far as they can be foreseen. If men's knowledge of the future were perfect it would be a matter of indifference to a prospective purchaser whether he bought land of high fertility or land close to the margin of cultivation. What he gained by the purchase of land of high natural fertility he would lose in the larger interest charge on his investment.

As a matter of fact, the valuation process does not work out with the nie precision of text book theory. Land values are not a simple capitalization of current net rents. In good times they tend to exceed and in bad times to fall well below their rent capitalization values. But more than this, there appears to be a persistent tendency for poor lands to be over valued relative to good lands. Most prospective purchasers are both poor in this world's wealth and in farming skills. They seem to prefer to buy a cheap farm of traditional size rather than a smaller farm on better lands. As matters now stand an expensive farm is more apt to be a bargain than a run-down farm on poor land. The relative over-assessment of poor lands under the general property tax, to which attention was called in the preceding section, places the operator of such lands at a still greater disadvantage. Where poor lands cover extensive areas, farm operators cannot possibly make a normal return on the purchase price of the farms, a normal return on their labor and a sufficient surplus to pay for public services. The persistence of farming in such areas depends upon the willingness of the Federal and

24. Mississippi State Planning Commission, *Progress Report, 1938*, pp. 52-56.

state governments to subsidize operations,[25] and upon the willingness of the operators to accept sub-standard rewards.

In similar matter, if the valuation process were perfect, it would be a matter of indifference to a young man starting out in farming whether he bought a farm or rented one. In buying, he pays the future rents in advance. In renting, he undertakes to pay the rent each year. The renter leaves to the owner the risk that the economic rent may fall in the future or that taxes may rise above their present levels. If the future conformed exactly with present forecasts, a tenant's economic position would be no better and no worse than that of a present purchaser of land. In practice, the tenant operating on good land may be in a much better position than the owner-operator of an over-valued farm close to the margin of cultivation.

Another influence tending to force inefficient farm owners toward the margin is the economically sound pressure on able operators to expand their holdings. For them to maximize their incomes they must command a farm "plant" large enough to give full scope to their managerial talents. The optimum size of plant for such operators will frequently be larger than the "family-size" farm. Legislative enforcement of the "family-size" farm would tend to drive out of agriculture the abler elements in the rural population. Moreover, if the national interest is in maximizing output at minimum cost, there is a definite place in the agricultural economy for some large farms operated by tenants and farm laborers.[26]

True, there are social considerations in favor of the small farm. Our own view is that superior talents are relatively scarce and that consequently the family-size farm and the large farm operated with tenant or hired labor may well exist side by side to the advantage of all concerned.

Economic analysis indicates that tenancy, as such need not be particularly oppressive. It stands on much the same footing as the

25. This is why New York and the northern Lake States are attempting to prevent the resettlement of abandoned farming areas, and why public measures are necessary to assist in the evacuation of submarginal farming areas in which farming is still practiced.
26. The marked increase in the average size of farm between 1935 and 1940 appears to have been due in part at least to this factor. For the country as a whole, and for the Southeast as well the increase was from 154.8 to 174.0 acres—12.4 per cent.

institution of private property. Present owners and tenants alike are paying tribute to earlier owners from whom the land was bought. If the terms of the contract are fair[27] the tenant would not be materially better off if he assumed a large fixed burden of interest in order to avoid an annual payment of rent. Only by abolishing private property in land without compensation could this tribute be avoided. Direct purchase by government and the giving of the land to tenants would merely shift the burden of the tribute to the shoulders of the general taxpayers. Nor would the lending of the purchase money avoid the tribute—the tenant purchasers would have to pay it in full through the interest charge on the loan, or, if the rate were set too low, they would share it with the taxpayers. Indeed, if the lending program were on a sufficient scale to really abolish tenancy, the chances are that the ultimate burden would be increased as a result of the ensuing rise in land values. Private credit agencies, obviously, would not voluntarily enter upon such a program unless government undertook to freeze land values at a level that made the transaction attractive. If the government itself launched such a program it would have to choose between three alternatives:

(a) freezing land values and forcing owners to sell at arbitrary valuations;[28]

(b) exposing tenant purchasers to the heavy losses arising from the over-valuation of farm lands; or

(c) absorbing the losses and passing them on to the general taxpayers.

The Bankhead-Jones act provides for a modest tenant-purchase program[29] and for rehabilitation loans to farmers to permit them to regain their footing on the tenant-rung of the agricultural ladder.

27. The problem of a fair tenant contract is discussed below.

28. Twenty-four nations which have undertaken to promote ownership of family-sized farms have found it necessary to exercise the right of eminent domain. See *1940 Yearbook of Agriculture*, p. 900.

29. $10 millions was appropriated for the first year, ending June 30, 1938; $25 millions for the second year; $40 millions for the third year. For the year ending June 30, 1941, Congress avoided any burdening of the current budget by authorizing the Reconstruction Finance Corporation to advance $50 million.

More than one hundred times as many farmers are affected by the latter as by the former provisions of the program.[30] Yet recent literature emanating from the Department of Agriculture stresses the purchase aspects of the program, leaving the hasty reader with the impression that the promotion of farm ownership is the real objective of the program. This is unfortunate because the program as it now operates represents, in our opinion, a more realistic goal than the one apparently sought by the Department.[31]

The tenant-purchase program on its present modest scale can be justified as part of a larger program of agricultural education. Inflation of farm values is avoided and evidence is provided that run-of-the-mine farm families can successfully establish themselves as owner-operators when furnished with long term credit at reasonable rates of interest and with technical guidance regarding farm and home operations. The tenant rehabilitation aspect of the program, on the other hand, constitutes a highly economical and significant attack upon the institution of tenancy which might well be expanded. The aim, here, is to reform and not to destroy tenancy, to make it serve both the people and the land better than at present.[32]

Fortunately there is no need to abolish tenancy. The task is to

30. According to a May 1, 1941, release of the Farm Security Administration 870,000 needy farm families had received rehabilitation loans totalling $417 million or just less than $600 per family (p. 14) as compared with about 8,200 tenant families receiving farm purchase loans. The average of these loans was $5,738 or almost ten times as much per family as the average tenant rehabilitation loan.

31. Paul V. Maris, Director Tenant Purchase Division, Farm Security Administration, writing in the *1940 Yearbook of Agriculture*, recognizes that "improvement in the status of tenancy itself offers the most direct and immediate remedy for many of the current evils of the American land tenure system," (p. 901) but does not believe that a really "wholesome situation" can be expected until tenancy has been cut in half. This would involve a reduction in the number of tenant farmers from around 2,865,000 to 1,500,000. He estimates the cost of such a program at about seven billion dollars. Spread over 25 years he thinks it administratively and financially feasible (p. 900). See also his article in the July, 1941, *Land Policy Review* entitled "Land Tenure Objectives" in which he advocates Federal financing to establish (1) 1,000,000 owner-operated one-family farms; (2) 1,000,000 tenant farms operated under leases satisfactory to the Federal government; (3) 1,000,000 farm families operating cooperatively under long term leases. His program further calls for the introduction of (a) minimum rural housing standards, (b) minimum agricultural wages, (c) a graduated system of land taxation to penalize large holdings, (d) homestead exemptions to encourage the family size farm; (e) compulsory sale of large holdings on the basis of their earning capacity.

32. The technical guidance which goes with both the farm purchase and the tenant rehabilitation programs has proved highly effective. In these laboratories farming methods are being demonstrated.

subject the institution to appropriate social controls. Before attempting a prescription, however, the defects of the system as it operates in the United States need to be understood.

First of all it must be understood that rent, which the economist can define with nice precision, does not automatically emerge. It is an undifferentiated part of the gross product of the land. It can be realized in full only if the land is farmed to maximum advantage. When land is farmed by a tenant it is important that he should know how to farm. If he does not know how to farm he should not be a tenant; he should be a farm laborer working under supervision; or, perhaps, he should not be in farming at all, for good farming requires a diversity of talents that few men possess. Only if he possesses aptitudes and eperience is he fit to be a tenant. But it is equally important that he should want to farm well. The tenant contract must provide the incentive. It is precisely at this point that the system, as it has developed in this country, is most defective. About two in every five farmers in the United States, operating as tenants, cannot be sure of enjoying the full fruits of any improvements which they may make in the lands they cultivate. The result is that most of them do not make the best use of their time throughout the year. In an area in which this type of tenancy predominates, a wasteful and demoralizing pattern of behavior is to be expected. Children growing up in this environment come to take this behavior pattern for granted. It becomes increasingly difficult for any individual caught in the system to break away from the accepted routine. As Odum puts it in his *Southern Region:* "A million families and five million people of the Southeastern population are conditioned by the vicissitudes of tenancy. No one knows what their capacities are. No one knows who they are and what their backgrounds are, or what the potentiality of two million youth might be under changing circumstances." [33] It is ironical that a people who pride themselves on the fact that their economic life is based upon private initiative should so long

33. P. 489.

have denied to this large group the motivations upon which depends the validity of the institution of private property.

In the South at least, two schools of thought have developed regarding the tenant group—the pessimistic school and the optimistic school. The adherents of the pessimistic school declare that most tenants are shiftless, ignorant, lazy and lacking in ambition. Conclusion: their poverty is due to these character defeats and there is very little that society can do to improve their lot. The members of the optimistic school argue that these characteristics are the result of a bad environment and of defective institutions. Conclusion: change the environment, provide the group with incentives and these characteristics will disappear as disease germs vanish under the healing rays of the sun.

The pessimistic school has its eyes fixed on the demoralized adults in the cropper and small tenant class. Many of these adults may well be beyond redemption. Institutional changes will not alter their behavior patterns. The optimists have the children of these croppers in mind. They believe that a change in the environment, plus education, can prevent the behavior patterns of the adults from being transmitted to the children. The pessimists are probably more right than wrong for the immediate future; they may well be more wrong than right for the long future.

An organized society must gamble on the correctness of one or the other of these two theories of human behavior. Since the pessimistic theory leads to a sort of paralysis in social policy which begets the very evils it fears, and since the optimistic theory has at least an equal chance of being right and of bringing about a great improvement in the lot of the underprivileged, the scales are tipped in favor of a bold policy of social reform.

The longer the decision is delayed the more heavily are the scales weighted against the optimistic thesis. The present environment exercises an adverse selection on the population. In the rural South, for example, the ambition of the abler tenant families is to see their boys leave the farm and make something of themselves in the city.

In an agricultural society tenancy undoubtedly represents the strategic point of attack. This is the conclusion expressed recently by an eminent German agricultural economist after a sojourn of several months in the Deep South:

> The United States is still far from any such progressive legislation as is represented by the English Tenant acts. The poverty and backwardness of millions of poor whites and Negro farmers in the South, beyond comparison with conditions in any European state, is taken as something natural and permanent in American agricultural policies, but it is a promising point to begin a great reform.[34]

The goal must be to provide the tenant with the incentives that constitute the motive force in a society based on private property and private enterprise. The terms of the tenant contract must provide the incentives.

Only practical farmers and agricultural experts sitting down together can fill out the detailed specifications for a model tenant contract suitable to a particular area. A few general principles, however, can be laid down with considerable confidence. First of all, the contract should be written, in order to reduce to a minimum the inevitable points of friction and misunderstanding between landlord and tenant. Second the contract should state in precise form what the landlord expects the tenant to do, and what the tenant may expect the landlord to do to maintain the fertility of the soil, what tools and equipment each party shall bring to the operation of the farm, and what share of the gross product shall go to the landlord. Third, the tenant must have adequate assurances that he can stay on the farm long enough to get back with a reasonable profit any investment of labor and/or capital that cannot be amortized in the current year. He must know that, pending the full recovery of his investment, the rent will not be raised because of the increased productivity that is due to his efforts. Fourth, the landlord must have reasonable assurances that he can get rid of a tenant, who abuses his land, promptly and with recovery for the damages. Fifth, a lease running over a period of years is desirable, though not essential, as

34. Karl Brandt, "Recent Agrarian Policies in Germany, Great Britain and the United States," in *Social Research*, Vol. III, No. 2 (May, 1936), p. 196.

English experience demonstrates.[35] Sixth, cash rent is to be preferred[36] to share rent because it encourages diversification and durable tenant improvements. Finally there is need for some simple, rapid and inexpensive method of settling minor disputes between landlord and tenant and for appraising the value of any unexhausted improvements made by the tenant. Such an appraisal is needed whenever either party wishes to terminate the contract.

Many forward looking farmers in this country have voluntarily introduced most of these features into their tenant contracts. The same process started in England almost a century ago. There, decade after decade, the practices of progressive landlords which proved beneficial were enacted into law. Most of the measures enumerated above are a required part of the British farm tenant contract, and most of the evils which still plague us have disappeared from the British scene. One hears little of soil depletion. The tenant class is stable and reasonably contented.

If soil erosion and social demoralization are to be checked in the rural South, and in many other parts of the country as well, changes comparable to those made in England must be undertaken. The reform will take time. A generation may not be long enough. The important thing is to begin and to proceed in the right direction. Man will put up with a lot of hardships providing the feeling is abroad that things are getting better. Can we explain otherwise the optimism that pervaded frontier society? For most of the pioneers life was as lean and difficult as that of the present generation of croppers. Yet they lived gloriously, and sometimes uproariously, on hope.

The Bankhead-Jones Act of July, 1937, marks a long step in the right direction. It is significant, however, primarily as a demonstration. The major responsibility rests with the states. They alone

35. "Annual leases that are automatically continued in the absence of written notice to the contrary and that contain compensation for disturbance provisions often continue in effect for years and are recognized as having some advantages over long-term leases with definite termination dates." Maris, in *1940 Agricultural Yearbook*, p. 904.

36. Cash renting may not be feasible for tenants without property. Neither party can afford to take the risks involved. The adoption of cash renting would appear to represent an ultimate rather than an immediate goal.

can pass the laws needed to reform the tenant contract. Meantime they can and should throw their weight behind the tenancy reforms inaugurated by the Federal Government. The Southern states, for example, could enormously quicken the pace of change if they were prepared to make funds available on favorable terms to landlords and/or tenants for purposes of diversification and soil conservation. They could impose conditions similar to those imposed by the Farm Security Administration, and in conformity with the indications of their own land classification surveys. The State Planning Commissions, in cooperation with appropriate state and Federal offices, might well undertake to draft model contracts that would fit their local situations. As the benefits to the two parties concerned came to be generally recognized, it would become politically possible to make one provision after another of the model contract part of the law of the land. This is the way durable progress is made. Legislation follows after and generalizes practices that experience has shown to be sound and acceptable to the responsible elements in the community.

Wisely and honestly administered such an advance of state funds need not burden the treasury. The expert technical advice and supervision that should accompany the loan and be one of the conditions imposed upon the borrower would make it comparatively easy for him to repay out of increased earnings. By putting its credit behind soil conservation and tenancy reform the Southern Region could bring in large amounts of badly needed capital without danger of absentee control over its economic and social life, or exploitation of the people.

Chapter VII

SOCIAL SECURITY AND THE SOUTHERN REGION

IN the two preceding chapters ways and means of increasing productivity in the extractive segment of the Southern economy were considered. It was pointed out that recent Federal interventions in this field are in part due to the failure of the states to act. The present chapter is concerned with measures of joint Federal-state responsibility primarily designed to provide continuity of income to groups exposed to want as a result of cyclical and structural instabilities over which they have little or no control.

The need for public interventions to cushion the impact of cyclical and structural change is admitted. In the opening chapter it was argued, however, that the primary purpose of these interventions should not be relief but adjustment. Continuity of employment, while important from the point of view of the individuals concerned, should be regarded as incidental from the social point of view. An analogy from the circus may help to make clear the place which social security measures should occupy in a capitalistic society. These measures are the net which management has thrown under the ring in which the acrobats perform. Occasionally a performer falls, but, after bouncing about on the net a few times, he will climb back on the trapeze or the tight rope. Spectators would be few in numbers if the management insisted upon heightening the suspense by strewing the ring with boulders to guarantee the destruction of the hapless acrobat whose sense of timing and of balance slackened for even a split second of time. Modern man has no desire to substitute the Roman arena for the modern circus. But the circus would have small appeal if management insisted upon strapping the performers to their

apparatus. Social security measures, in other words, must not be used to prevent men from falling. Its function is their rehabilitation and their restoration to the working forces of the nation. If all risk is removed, free society is dead. That the search for excessive individual security can only lead to the massive insecurity of whole nations is abundantly demonstrated by the events of the past two decades. Everywhere the people have sought individual security through government only to find that government itself cannot be secure in an increasingly rigid and inflexible world. It might be well to eliminate the word "security" from the vocabulary of government, substituting the word "adjustment" therefor.

The AAA nailed the correct word to its masthead, yet too much of its program aims at the very opposite of adjustment. Adjustment means the establishing of a satisfactory relationship. In a changing world this relationship must be with the present and the foreseeable future and not with an historic moment in the past, which, in retrospect, appears to have been reasonably favorable to a particular group. The AAA policy, for example, harks back to the medieval concept of a "just price" and a "just reward" to the various classes in a rigid, unchanging, hierarchical society. Unless we are prepared to re-enter the Dark Ages—and there are many signs which indicate that that is the road which the western world is taking—more than a change in terminology will be needed to save the heritage of freedom.

These reflections are not to be interpreted as a denial of the validity of all the governmental measures which are encompassed by the unfortunate term "social security." In principle most of them have their proper place as adjustment devices in the agenda of a truly liberal government.

The term "social security" is used here very broadly to cover the following: contributory and non-contributory payments to the aged; aid to dependent children, to the blind, to crippled and otherwise physically handicapped; accident and health insurance; unemployment insurance; work relief and public works; the Federal AAA program; and the Farm Security program.

While the problem of security is world wide in scope, only the American aspects of the problem will be discussed. The discussion, however, will be based upon the concept of divergent regions which necessarily raises issues similar to those which would be involved if the problem were being approached from the international point of view. We shall be particularly concerned with the impact of social security upon the South. The point of view from which the problem is approached is expressed by the word adjustment. It is assumed that a security program can only be characterized as constructive if it permits of positive answers to the following questions: (1) Do the measures taken severally and as a whole assist individuals to qualify for jobs in segments of the economy in which opportunities are expanding? (2) Do they assist individuals to make the geographical shifts involved when structural changes affect extensive areas—sub-regions or entire regions? (3) Do they promote mobility of capital, or do they tend to reinforce the advantages of areas of present capital concentration? (4) Do they promote or diminish the sense of individual responsibility of that segment of the population which is still in the productive age brackets—say 18 to 65? (5) Do they broaden or constrict the expansion potential in important segments of the economy? (6) Do they conform with the sound planning principle that where an adjustment involves either a population movement or a capital movement, preference should be given to measures designed to induce the latter?

Effective planning calls for a combination of prediction and control. There is need first of all, for a careful appraisal of job opportunities and their geographical location. Where, on the basis of recent experience, are new job opportunities likely to develop? What sorts of jobs are these likely to be? What areas appear destined to lose population on the basis of past migration trends? What areas should give up population in the interests of soil conservation? In brief, information is needed to permit the identification of areas of expanding and contracting opportunity. In figuring population surpluses in areas of declining opportunity, reasonable improvements in existing practices should be taken into ac-

count. Every effort should be made to hasten their general adoption with a view to minimizing population movements. Due allowance should also be made for new opportunities—industry and recreation in a rural area, for example—but they should be figured conservatively.

After analyzing what may be called natural trends, planning should also consider the extent to which these trends may be consciously redirected. Only clear evidence of a net social gain can justify efforts to interfere with natural trends. And before proposing new interventions the analyst should consider whether an existing intervention may not be responsible for the trend which he regards as socially unsatisfactory. The correction of faulty interventions can probably contribute more to effective planning than the devising of ingenious additions to the battery of social controls. In this and the following chapter an attempt will be made to show that the present plight of the South is due in part to unwise Federal interventions.

This approach to the problem calls for the breakdown of the country into many small, homogenous subregions and for an analysis of the total situation in each such subregion. The security program should then be fitted to the needs of each area. This approach may seem to require an impossible degree of flexibility and variability. Actually, however, it will be found that subregions fall into three well defined classes: areas of declining opportunity; areas of increasing opportunity; and areas in which population and resources are in reasonable equilibrium. Social security measures should be sufficiently flexible to fit the needs of these three type areas. The most difficult problems naturally arise in areas of declining opportunity. They provide laboratories in which any defects in social controls stand clearly revealed.

Such an area is described in the following pages. Though the present tense is frequently used the conditions are those prevailing in the period just before America's entry into the present war.[1]

1. The study was made for the National Resources Planning Board. Since the results have not yet been released, the exact identification of the area cannot be revealed

The area consists of eleven rural counties of rolling upland containing roughly 300,000 people. Seventy-five per cent of the population live outside of incorporated places. At the periphery of the area there is a city of less than 40,000 which is still growing, but less rapidly than other cities of the state. There are four towns with populations between 2,500 and 5,000. The remaining centers are little more than crossroad hamlets. Just over 60 per cent of the population is white.

Soil, terrain, and climate combine to make erosion a perpetual threat. Outside of the limited bottom lands, virtually the entire area is overlaid with highly erosive soils. The terrain is rolling to rugged, with restricted areas of level plateau. Rainfall is abundant —around 50 inches—and tends to fall in torrential fashion. Erosion control is required on slopes in excess of one per cent. Only 22 per cent of the land area exhibits little or no erosion.

In sharp contrast to the wasting of the natural resource base is the high rate of population growth. In 1930 the rate was 80 per cent above that necessary to maintain a constant population. The rate declined during the decade of the '30's but is still probably in the neighborhood of 160 (with 100 as the maintenance rate) as contrasted with 136 for the rural population of the country as a whole. Some 25,000 persons are estimated to have left the area during the decade.

Despite this exodus living standards remain very low. The "plane of living" index used in *Migration and Economic Opportunity* showed every one of the counties in the area in the very lowest of six categories.[2] The value of land and buildings in the various counties ranged from 10 to 39 per cent of the national average. Such improvements as can be noted appear to be due to heavy state and Federal subsidies—better roads, improved schools, rural electrifica-

at this time. It is very typical, however, of the Old Cotton Belt as discussed by Rupert B. Vance in Goodrich and Others, *Migration and Economic Opportunity*, pp. 124-163. For a fuller statement see my "Public Works, Economic Stabalization and the Rural South," No. 2, *Papers of the Institute of Research and Training in the Social Sciences*, Vanderbilt University (Nashville, January, 1942).

2. Carter Goodrich and Others, *Migration and Economic Opportunity* (Philadelphia, 1936), pp. 17-20.

tion, etc. The resources of the area cannot support even these modest advancements. The decline in the value of farm implements and machinery and the rise in the value of road building equipment, as recorded in recent census releases, is symptomatic. The number of doctors in the area declined by 29 per cent between 1919 and 1939 and the population served per physician increased by 82 per cent, while the number of public officials in the area has increased considerably. In their efforts to meet what the Federal and state governments regard as desirable minimum standards in certain fields—roads, old age security, education, unemployment, etc.—the people have had to reduce through taxation the proportion of a declining income which they may spend as they see fit.

The fundamental reason for the low income level in the area is, of course, the over-concentration upon the extractive industries, particularly agriculture. Almost 80 per cent of the bread-winners were classified as farmers in 1935. Only 11 per cent of the gainfully employed were in manufacturing industries, with just over half in forest products and about one-ninth in textiles. About one in twenty found employment in wholesale and retail trade. Only one in a hundred was in the service industries. In all cases the wage levels in these occupations were under the state average and varied from 50 to 70 per cent of corresponding national averages (1935). This large differential is important in view of the Federal policy of fixing remuneration on public works projects at what is regarded as a desirable national minimum.

Seasonal employment in the non-agricultural segment of the economy tends to fluctuate with the demand for labor in the agricultural segment. The lack of any counter-seasonal offsets in the various segments of the private economic life results in an employment pattern of pronounced seasonality and hence social instability. Long-term trends offer little hope of increased employment as a result of the advent of new non-farm opportunities.

For almost a decade now the state and the Federal government have met this distressing situation by massive subsidies. The state's assistance has been primarily for roads and schools; the Federal aids

have come through the agricultural grants and public works. In 1934, for example, 10 of the 11 counties received two dollars in state aids to every dollar paid to the state in taxes. The Federal agricultural aids have centered around the cotton complex. Through generous subsidies and acreage quotas this area, which is largely submarginal for cotton, has kept a larger proportion of its land in cotton relative to its base year than rich delta counties. In 1940 the farmers in one of the counties in this area received 176 per cent of the value of their seed and lint in government payments, while farmers in the highest acreage yield county in the state received only 23 per cent. By 1940 the farmers in this area were probably receiving one dollar from the Federal government for every three dollars realized from the sale of agricultural products.

The conditions attached to these payments have led to marked improvements in agricultural practices in the way of contour plowing, terracing, etc., but they have also made it possible to keep an excessive amount of acreage in cotton. The artificial prices maintained for almost a decade, plus conformance payments, have been insufficient to provide a tolerable standard of living for a large group at the bottom of the agricultural ladder. Generous public works have supplemented the agricultural aids. In the aggregate some ten millions of dollars were disbursed by WPA in the area between the inception of the program and the spring of 1941.

Public policy has not yet come to grips with the fundamental causes for the instabilities in the area. The AAA is making it possible for the hill farmers to remain in cotton production. To accomplish this it has been necessary to keep the price high. This in turn has necessitated rigid acreage control in the delta and other areas where production at this price would be very profitable. This policy militates against American cotton in the world market. As the program now operates, an undue share of American cotton is being produced on lands which are submarginal for cotton both in terms of price and of soil maintenance.

The government-supported price has not been high enough to provide hill farmers with a subsistence income. Compliance pay-

ments for soil building practices have helped, but few farmers have been able to earn the equivalent of the wages paid on public works projects. Consequently, WPA has had to ration its appropriations and cut down on employment in the summer in order to provide farmers with the labor essential to planting and harvesting. Meantime the prevailing wage has discouraged small operators from spending the off-season building up their own farms and converting them into a pattern which, in the long run, would enable them to earn a higher real income than that now provided by the combination of farm and public works employment.

WPA expenditures account for many of the improvements noted in the preceding discussion of the facilities and amenities of life. Most of these amenities, however, belong in the category of public goods. The farm operators have not increased their own durable producers and consumers goods as much as would be desirable. Their ability to provide for the maintenance of these amenities and facilities has not been significantly increased.

The fact is that farming in this area cannot be made to stand on its own feet until there has been a reduction in the number of farm operators, an enlargement of the farm unit and a radical change in the pattern of farm production. Production should be directed into lines in which the area has a comparative advantage, or, more realistically, in which it is at the least disadvantage. There has been little progress in this direction. Even the development of home gardens has been discouraged by the availability of work on public projects, despite the fact that such work would have yielded a higher real income than that provided by the money wage.

The public works program has had two further disadvantages; (1) by providing the younger and more adaptable men with work it has discouraged them from seeking employment elsewhere; (2) by providing them with relatively unskilled work it has left them older, less adaptable, and no better equipped for seeking employment elsewhere than they were at the beginning of the long depression.

Meantime the combined effect of public works, AAA compliance

checks, and various relief measures has been to minimize the sense of individual responsibility. Large numbers have come to feel that the situation in which they find themselves is not of their own making and that the responsibility for creating a satisfactory situation is not theirs. They have come to feel that they have a right to remain where they are, to do what they have been accustomed to do, and to receive help until the accustomed ways yield a satisfactory income. It is true that the situation is to a considerable extent not of their making, but it is certainly not true that this relieves them of the responsibility of adjusting to changed conditions. All that they may reasonably expect is help in making adjustments. Government programs, taken as a whole, have not met this test. They have failed to face up to the fact that the area is over-populated, unable to provide a tolerable existence for the population dependent upon its relatively poor and depleted resource base, and still less able to provide for the increased numbers flowing in through the high birth rate. Unless present tendencies can be reversed, the deterioration which has gone on for the past decade will continue, eventually necessitating a far vaster outmovement of population than would otherwise have been necessary.

In the remainder of this chapter an attempt will be made to appraise security measures in the light of the requirements of areas such as the one just described and to suggest constructive changes. The problems of areas of expanding opportunity will be dealt with incidentally.

Contributory and non-contributory payments to the aged. In an area of declining opportunity there will necessarily be a large number of aged persons who require assistance. It would obviously be unreasonable to expect them to migrate to areas of greater opportunity. Society can provide for them most economically and most humanely where they are. The mobility of the younger generation may actually be increased by public provision for the needy aged. The existing old age pensions represent a sound solution of this problem. Only one point of principle appears to be

involved. It has to do with the level of assistance. The pension level should be kept somewhat below the level of annuities which able-bodied workers can expect to accumulate under the contributory part of the old age security program. Since annuities are tied to wages, and since wages in areas of declining opportunity are necessarily low, it follows that the level of pensions should be low. Otherwise the younger workers in the area will resent the necessity for making contributions from their meagre wages for a level of old age protection below that available to workers falling outside the contributory system. The present old-age and insurance provisions of the Social Security Act satisfy this test.

Aid to dependent children, to the blind, crippled and otherwise physically handicapped. Aid to these categories can be justified on much the same ground as pensions for the aged. It is unnecessary to expect high adaptability on the part of the physically handicapped. They need not be submitted to the rigors of the labor market as a method of forcing an adjustment. In the case of dependent children the situation is somewhat different. In due time they will enter the labor market. It is socially desirable that their ability to adapt themselves to its dictates should not be reduced by the deprivations of excessive poverty. It is impossible, of course, to prevent cash payments earmarked for this group from affecting the attitudes of adults who administer to their needs. On the whole, however, the advantages of assistance outweigh the disadvantages as long as money grants are kept at a moderate level. This can be done without harshness if government supplements them with services in kind—school lunches, improved health services, etc. The maintenance of regional differences in the treatment of these groups appears to be less essential than for the needy aged.

Health and accident insurance. A comprehensive program is particularly desirable in areas of declining opportunity. In such areas the need is great and the supply of doctors and hospitals necessarily inadequate under the present individualistic method of paying for

medical care. The resulting poor health reduces the vitality and vigor of the population and the ambition and ability of its younger members to venture elsewhere in search of greater opportunity. The next important forward step in the social security field promises to be in this area.[3]

Since the birth rate in areas of contracting opportunity is likely to be high the health program should include not merely services designed to reduce maternal mortality but also information regarding techniques of birth spacing in the interests of a more healthy childhood.

Unemployment insurance. As indicated in Chapter I, unemployment insurance can be reconciled with the requirements of the system despite its adverse effect on labor mobility. It tends to attach a man to a particular occupation and to a particular place. For a short period it decreases the need to consider either a geographical or an occupational shift. Since excessive mobility is socially undesirable this consequence is not to be deplored. Unemployment insurance serves reasonably well as a protection of the individual against short-time cyclical fluctuations in business activity. Moreover the resulting stabilization of spending may have some dampening effect on business fluctuations. Unemployment insurance, however, is powerless to protect the individual against long-run structural changes and the prolonged depressions which occur from time to time. Indeed, it may unduly increase the individual's psychological resistance to changes which in his own interest he should be prepared to make. While it cannot be proved, it seems

3. The Farm Security Administration experimented with prepayment for medical care in connection with its tenant rehabilitation program. More recently according to a News Bulletin of Public Administration Clearing House (Chicago, Illinois) Release No. 5; August 28, 1942, the experiment has been broadened in six scattered counties to include all farm families. The program covers general practitioners, surgical and specialist services, hospitalization up to 14 days per person per year, prescribed drugs, limited dental care, and in some cases visiting nurse service. The cost is expected to be about $50 per year per family. No family will be required to contribute more than 6 per cent of its cash income. The Farm Security Administration is to supplement the contributions of those whose family incomes are less than about $800. It is expected that a general practitioner with a panel of 300 farm families will have an income of at least $4,800 per year.

quite possible that the unemployment insurance system tends to strengthen in the minds of covered workers the conviction that they are entitled as a right to public support until such time as a job can be found for them in the line of work and in the neighborhood in which they have established themselves.

Several other objections to the system of unemployment insurance can be raised. In the first place the risk is not one which can be actuarially determined. It lends itself poorly to the insurance principle except in industries with a pronounced seasonal pattern. Secondly individuals are very unequally exposed to the risk of unemployment. Abler workers will go for years without experiencing unemployment. Below them are to be found a still larger group of steady, reliable workers whom management is loth to lose. They are the last to be laid off in slack times and the first to be reemployed on revival. Below these come the marginal workers, the first to be laid off, the last to be employed. Their earning experience is so brief that they seldom succeed in building up compensation rights for the maximum legal period. Even the most modest waiting period is excessively hard upon them and their families. Summarizing: the system has little to offer the bulk of the workers in normal periods and can provide but a few weeks protection in the event of prolonged depressions, such as that which began in 1929, or against deep-seated structural changes affecting whole industries and regions; and it offers entirely inadequate protection to the marginal workers in normal and abnormal periods alike. Is it worth while to set up the complicated and costly administrative machinery to accomplish so small a purpose? Would it not have been simpler to provide, perhaps, a dismissal wage as an incentive for employment stabilization, as a deterrent against frivolous discharge, and then to take care of the needy employables through local relief and public works? Unemployment insurance appears to be the least essential link in the existing security program.

Moreover the existing unemployment compensation system fits but poorly into the structure of areas of declining opportunity such as the one just described and into the economy of the South as a whole.

The exemption of employers of less than 8 in covered industries and the entire exemption of farming, fishing and domestic service leave the vast bulk of the needy population outside the system. In Louisiana and the nine Southern States east of the Mississippi River only 27.4 per cent of the gainfully employed were covered in 1939, in contrast with 50.6 per cent in ten highly industrialized states.[4] In Mississippi only 13 per cent were covered. An exceedingly expensive administrative apparatus has been set up to provide very limited aid to a small fraction of the workers in industries.

Work Relief and Public Works. Public works have an important role to play in a security program. As indicated in Chapter I, relief work and public works should not be regarded primarily as a means of providing employment but rather as a means of facilitating the larger structural adjustments which are continuously required in a dynamic economy.

Durable public works should not be thrown into areas of declining opportunity because the relief need is high. In such areas need is an evidence of a population-resource maladjustment. The works program should be based upon an analysis of the long-run requirements of the area. Improved roads and new schools should not be built in an area, which has been classified as submarginal for agriculture and where sound policy calls for out-migration, simply because people need help. It would be cheaper to use these funds and the savings in maintenance and operating costs to buy up the farms and return them to their most appropriate use. Government would do better to assist the displaced owners and tenant operators to find suitable farms elsewhere if they desire to remain in farming, or nonfarm opportunities if they are prepared to make the occupational shift. Zoning should then be invoked to prevent newcomers from repeating the mistakes of the past.

A limited program of public works, however, will always be

4. E. J. Eberling, "Unemployment Compensation and the Post-War Period, With Special Reference to the South," No. 4, *Papers of the Institute of Research and Training in the Social Sciences,* Vanderbilt University (Nashville, December, 1942). Table V, p. 44.

necessary in areas of declining opportunity. Old schools will in time have to be rebuilt. The economies of consolidation may justify the abandonment of the one and two-room district school in favor of modern well equipped and centrally located schools. Through roads, local farm to market roads, and roads giving access to recreational areas may well be in order. Improved transportation increases the economic validity of county consolidation, which is particularly urgent in the type of area here under discussion. As an inducement to consolidation the states and the Federal government might well undertake to provide the lion's share of the costs of constructing modern office space to bring together the many Federal and state services operating at the county level. The mere assembling under one roof of these services would contribute to the unifying and harmonizing of programs. Employment preference on the limited program of public works should be given to the older employables who cannot reasonably be expected to make a successful start elsewhere. Similar preference might also be given to this age group in the more routine county activities. Private employers should be encouraged to adopt the same policy. Public opinion would have to be won over to the fact that the long run interests of the younger and more adaptable group lay in emigration.

The wage scale on the public works program in any area should not exceed the prevailing wage in private enterprise. Where public works are used to combat a cyclical depression they should be kept a little below the locally prevailing rate lest they force a further contraction of private activity in the area. The fact that job preference was being given to older workers, constitutes a further justification for such a low wage policy.

Meantime a generous program of occupational retraining for younger workers should be inaugurated with a view to fitting them for opportunities elsewhere. Additional funds, brought in through Federal and state grants-in-aid, or through the transfer of this educational function to the states or the Federal Government, would prove more useful than an equivalent amount spent on public works, because it would not contribute to any further freezing of an un-

satisfactory population pattern. It would be cheaper to give younger employables subsistence stipends while undergoing retraining than to pay them the wages of unskilled laborers for building improvements that will not be needed a decade hence. And it would do more to enhance morale than the slipshod work that has frequently characterized relief projects. The provision of such subsistence stipends would increase the political feasibility of reserving work on such projects to older workers.

The bulk of a public works program designed to maintain employment should be thrown into areas of expanding opportunity, despite the fact that the relief load will frequently be less there than in areas of contracting opportunity. In return, however, it would be necessary to reserve job quotas on such works for qualified workers from areas classified as declining. At the present time the tendency is to distribute public works according to need, to staff them with younger workers, and to reserve all the jobs for local residents. This parochialism will have to be broken down if public works are to serve as an adjustment and not merely as an employment stabilization and pump-priming device.

Public employment offices need to become inter-area clearing houses. Offices in areas of expanding opportunity should be expected to find outlets for younger qualified employables from areas of declining opportunity. As will be indicated later, appropriate Federal aids might be used to render such a program palatable to the localities.

The public employment office service, as originally set up, appears to have strengthened parochialism through its emphasis upon the states. The war on depression was fought and not too successfully on state lines. When the United States entered into a real war the limitations of the system were immediately recognized. The state services were transferred to the Federal Employment Service. If long range forward planning of public works is to serve as a device for population transfers it may be desirable to leave the public employment service in Federal hands.

Many younger employables in over-populated areas will want to

remain in farming. Federal and state agencies, like the Farm Security Administration and the county agents, should be charged with the task of assisting them to relocate on good farms in areas already supplied with public utilities such as roads, schools, etc. The land inventorying work discussed earlier provides the basic data needed for intelligent farm relocation programs. Financial and technical assistance are already available under the Bankhead-Jones Farm Tenant Act.

The reconstruction of forest lands offers a broad field for a long range work program. Millions of acres of abandoned farm lands are slowly coming back in second growth timber. With the application of sound forestry practices the rate of growth could be doubled or tripled and the quality of the tree species improved. The Forestry Service has worked out the national employment requirements for a ten year reforestation program at about a million and a half man-days for the country as a whole. Thereafter there would be six months employment yearly for about half as many.[5] This type of program is particularly well suited to many areas of declining opportunity in the South where forestry enjoys a pronounced comparative advantage. Public funds spent in hastening the shift-over of watershed areas and areas submarginal for agriculture or grazing to sustained yield forestry should yield big dividends, particularly if a conscious effort were made to dovetail reforestation employment with population relocation. To this end, job opportunities on publicly owned and upon large corporate holdings should be reserved as far as possible for older employables. At the termination of the ten year reconstruction period the number in this group would have been thinned out by death and others would have become eligible for old age pensions. As will be shown later, the reconstruction of farm woodlots could be made the basis for assisting Southern hill farmers to get away from cotton and other soil-eroding cash crops.

Such a program depends for its success upon equitable taxation

5. See Carter Goodrich and Others, *Migration and Economic Opportunity* (Philadelphia, 1936), p. 421.

of forest lands and upon adequate fire and pest protection. Forest land owners should only be expected to bear the costs of such services as are reasonably related to the requirements of sound forest husbandry. Local services in the way of schools, roads, health services, etc., in so far as they are needed because of past mistakes of settlement, should be met through state and Federal grants-in-aid, pending the successful transfer of population out of the area or the appearance of new resources. The attempt to force timberland owners to pay any substantial part of these costs only hastens the forest mining which public policy seeks to prevent.

The costs of fire and pest protection, on the other hand, are a proper charge on timberland owners. These expenditures pay out in reduced hazards. Mississippi studies have shown that the fire hazard in unprotected counties is anywhere from 18 to 45 times as great as in adjacent protected counties.[6] This enormous risk increases the interest charge—a particularly burdensome item in a long run operation like forestry—and fully justifies a fee-for-service charge on timberland owners.

The discussion up to this point has accepted the conventional connotation of relief work and public works as involving employment on publicly owned property or services of predominantly general benefit. For public works to have their maximum effectiveness as an adjustment device in rural areas of declining opportunity, this traditional concept needs to be expanded. In such areas, at least, it should include work on private lands designed to shape them to use patterns for which the areas have the greatest comparative advantage.

For much of the hill country of the South and for the seriously depleted lowlands of South Carolina and the Gulf States, adjustment calls for radical cultivation changes on tens of thousands of farms. The over-all limitations in output of the AAA, based on the parity income concept, missed the target and in addition introduced a demoralizing factor into American farm life. Being paid not to produce runs counter to a profound and wholesome agri-

6. Mississippi State Planning Commission, *Progress Report, 1938*, p. 57.

cultural tradition. Yet at the same time it must be recognized that when the AAA program was initiated, the collapse of farm prices threatened the very foundation of rural life. As a stop-gap, AAA can be defended. As a permanent solution, the case for it is much weaker. Acreage restrictions, applied indiscriminately to rich and poor land alike, represent a waste of the nation's resources just as truly as, though in a different sense than the soil erosion waste which the conformity payments under the AAA program have admittedly helped to check. A permanent agricultural program should help arrest both types of waste.[7]

The program will have to be much more discriminating than anything we have had to date. To realize it tens of thousands of individual farmers will have to be helped to revamp their farm practices. This implies payment for work performed by farmers on their own farms. It is in this sense that the concept of public works needs to be expanded. Only soil, farm and forest experts, intimately familiar with lands in local areas, are competent to work out the technical details. The prescription will vary with each type of farming area.

For extensive areas in the Lower South, a constructive long range program would appear to involve measures such as the following:

A gradual shift from the present cotton acreage allotment base to one related to the soil and terrain indications of the individual farms;

Expansion of the public works concept to include—for a transitional period and as a substitute for parity payments and curtailed public works of traditional types—a whole battery of improvements on individual farms;

The working out of long-range improvement plans, farm by farm, with the end goal always in view of reshaping the farms to the type for which the area is best suited;

The breaking down of this long-term program into a series of annual programs with valuations placed upon specified performance

7. See H. C. Nixon, *Forty Acres and Steel Mules*, Chapter IX for a supporting view. (Chapel Hill, 1938.)

units, i.e., performances which must go together to be useful—example: laying down of pasture *and* liming in areas of relatively poor pasture lands;

Payment of farmers on a contract basis for reasonable units of performance and at reasonably short intervals of time—after rigid inspection and approval—presumably by the county agent with an enlarged, qualified, and politically independent staff, enjoying security of tenure;

Provision that no farmer should be eligible on a public works project of traditional type unless he could produce a certificate from the office of the county agent that he had satisfactorily performed all the practices for which he could contract for the time being;

The fixing of the level of contract payments for the first year so as to provide the farmer with an income equal to that of the last year of the old program; thereafter the improvements for which he might contract or the valuations placed upon them would be reduced by the amount by which his farm income had increased as a result of the improvement made in earlier years—until finally the right to contract would disappear entirely.

Special attention would have to be given to the integration of the tenant into the program. Landowners operating with tenants could be favored or discriminated against with respect to the amount for which they might contract as a means of inducing them to give term leases which would permit their tenants to contract for improvements on their holdings. Otherwise they would have to look to the landowner for day labor in connection with the execution of the latter's contract.

Reforestation work would obviously be included in the improvement program. Construction of improved cropper cabins with cropper labor might also be made eligible, particularly in times of general crop failure, etc.

Such a program would permit of the progressive elimination of parity payments and parity loans. Commodity prices could be permitted to seek their own level. The aim would be to concentrate production on low cost lands rather than to spread it evenly over

high and low cost lands alike. In such a program soil conservation would receive even more attention than at present. Land on which expensive erosion control measures are necessary, if kept in traditional crops, is high cost land for that purpose. In such cases public funds should be spent, if at all, in helping the farmer finance the costs of transition to the type of farming consistent with soil, slope, precipitation and other climatic factors.

Adoption of this expanded concept of public works would call for appropriate modifications of the three great programs administered by the Department of Agriculture: the AAA program, the Farm Security program, and the Soil Conservation program. These three might be merged into a unified and strengthened Rural Adjustment Administration.

Freed from the rigid restrictions of the old AAA, the experienced personnel in this new organization could do a really constructive job. The farm purchase and the tenant rehabilitation programs should be continued as educational demonstrations, though their importance would be reduced. At present, the Federal financing involved provides about the only means whereby the Federal government can bring pressure on landlords to modernize their tenant contracts. If the present suggestion were carried out Federal assistance in every individual farm adjustment program involving tenant operated holdings could be made conditional on the adoption of an approved tenant contract. The State Planning Commissions should be asked to draft model contracts suitable to their states as guides for Federal action.

The farm purchase program should be suspended for the duration of the war. Otherwise there is danger that the assisted group will find themselves saddled with land purchased at excessive prices. This danger appears to be the greater because of the fact that priorities, rationing and other war control measures may channel rising farm incomes into land speculation. In the post war period the program might well be resumed on a modest scale as a method of demonstrating that, given the availability of technical guidance and

credit on reasonable terms, farm operators at the bottom of the social pyramid can embark on land ownership.

There is less reason for suspending the tenant rehabilitation program during the war, though it might well be restricted to good lands capable of yielding market surpluses, and to older operators whom it is undesirable to draw into war production proper. Since relatively short term leases are involved there is not the same danger of tenants being caught in long-term commitments running into a period of falling prices. The Federal program has demonstrated that the agents of the Farm Security Administration can provide better technical supervision than many farm owners, and that the written leases required under the program provide a new incentive.

In areas of expanding opportunity a sound social security program should cushion the impact of short-time fluctuations, and promote the flexibility of the labor supply by a well developed retraining program. Finally it should reduce popular resistance to the infiltration of population from areas of declining opportunity. Federally supported public works of traditional type appear to be particularly suitable to such areas, providing quotas thereon are reserved for qualified workers from areas of contracting opportunity.

Since public works cannot be stopped and started at a moment's notice, such a program is bound to carry over into periods of rising general activity. The disadvantages of this carryover from the point of view of business cycle control would not be serious if the job quotas reserved to local employables on such works could be reduced as a general index of employment rose. Periods of reasonably full employment in the private segment of the economy are the appropriate times for promoting population transfers from areas of declining opportunity. As will be indicated later a cyclically flexible Federal matching formula might make this procedure locally acceptable.

Government cannot embark on an ambitious program of occupational training and assisted population relocation unless private job opportunities are reasonably open to qualified workers. The closed union, monopolistic practices by business management, racial dis-

criminations against minority groups are all inconsistent with the adjustment goal outlined in this chapter. These restrictive practices are rooted in a pessimistic view regarding the possibilities of sustained full employment. This view is due to the inevitable preoccupation of the individual with the short-run impact of change. Social security measures, by softening these short-run impacts, should reduce this widespread resistance to continuous all-out efforts on the part of the various special interest groups which of recent years have combined to restrict production. The search for social security however will prove illusory unless the man-made rigidities in the economic system can be removed.[8]

In this connection and particularly in view of the widely heralded "Beveridge Social Security Plan for Great Britain," it may not be out of place to cite a passage which Sir William wrote in 1931 in a last effort to stave off Britain's return to protection:

> For the stabilisation of general prices, ... there is much to be said, ... though there are also things which can be said forcibly and persuasively against it; . . . . Stabilisation of individual prices is almost certainly a will-o'-the-wisp leading to misfortune. The restriction schemes for particular articles have

8. In *Goals for America: A Budget of Our Needs and Resources* (1942), the second volume of the series he is writing for the Twentieth Century Fund, Stuart Chase makes an eloquent plea for the establishment of a minimum budget for the American citizen. He believes that this budget should be guaranteed as a right regardless of whether or not a given citizen, at a particular time, was or was not earning it. He argues that the very guarantee of this minimum of consumption would sustain production. Competition would be for rewards exceeding the minimum.

I am inclined to think that Chase is right in his estimate that this minimum would absorb about one-half the nation's productive resources. My misgivings have to do with the ways and means of guaranteeing it and with the effects of the guarantee upon those so guaranteed. As I see it, there are literally millions who can not produce the value equivalent of the minimum budget because they are in jobs or in places where their serviceability to society is low. If they are assured the minimum, will they be prepared to learn the skills and move to the locations where they can earn it? It is my thesis that the Liberal State should provide the opportunity to master new skills, and the knowledge and facilities necessary to move to new places, but should deny the minimum budget to those who refuse to make the adjustment.

This hardboiled attitude toward the adults should not be at the expense of the children. Ways and means have to be found to protect them against the ignorance of their parents without destroying the family as the social unit. Expanded public educational, health and school feeding programs provide ways for differentiating between the two generations. With the children protected, society can continue to make use of the impersonal pressure of reward differentials rather than direct controls upon individual choice. To use direct controls to the extent necessary to reduce waste to tolerable proportions would dangerously strain democratic institutions. To guarantee the budget to employables, regardless of individual productivity, and without direct controls, would needlessly, perhaps dangerously lower the productivity of the economy as a whole.

for the most part broken down, and in breaking have been a further cause of instability. Their experience raises the doubt whether the present economic system will work if the price mechanism is taken out of it. Demand and supply in the long run are adjusted and production is directed only by movements of prices; if what should be flexible in the economic system is made rigid, there comes disequilibrium and breaking strain. Is not that what is happening with labour and its price in Britain today—a rigidity of money wages out of accord with economic conditions, leading to incurable disequilibrium? It is a rigidity which along with other rigidities—of occupation and place of work—is dangerously fostered by our insurance system. In the early days of the East Indian trade, half the spice crop was sometimes burned to keep up the price of the rest; some modern restriction schemes have resorted to the same device. It is not altogether fanciful to see in the trade unionism and the insurance system of to-day a restriction scheme for labour, in which labour is burned in the fire of unemployment. . . . . The causes of Britain's exceptional chronic unemployment from 1922 to 1929, as has been said elsewhere, "may nearly all be summed up under the general head of growing rigidity—of wages and occupations—in a world of increasing changefulness." "Adversity has replaced prosperity in Britain not because we in Britain have changed, but because we have not changed—to meet a new situation." [9]

9. W. H. Beveridge and Others, *Tariffs: The Case Examined.* (London, 1931), pp. 239-241.

Chapter VIII

FEDERAL OBSTRUCTIONS

IN the chapter on Regionalism it was argued that there is no insoluble conflict between regionalism and nationalism. In the long run the welfare of the several regions of the country are interdependent and harmonious. In the short run, however, genuine conflicts of interest arise. The politician, confronted with the problem of reelection, and the man on the street, preoccupied with the problem of tomorrow's bread, perforce set their sights on short run effects. Both react vigorously against changes in the rules of the game unless it can be shown that they will not suffer thereby. Moreover, even bad rules gain a certain validity in the course of time. Once they have become accepted, adjustments set in. Vested interests emerge which it may be socially desirable to protect. Ancient mistakes cannot be righted by a stroke of the pen. Correction involves a delicate operation calling for time, patience, tolerance and sometimes compensation.

This plea for moderation should not be interpreted as a defense of the status quo. The attempt to preserve it can provoke dangerous tensions and needless waste. The existing regional status quo threatens to drive the levels of living of millions of Southern farm families even lower than at present. The resulting pressure will throw wave after wave of poor and illiterate rural workers against the employment positions in the industrialized parts of the country. If labor in these areas through trade union restrictions succeed in defending these positions, or employers through monopolistic practices prevent expansion, a standing army of unemployed will eventually be scattered throughout the country. Since the public

conscience will not tolerate mass starvation the employed part of the population will have to take care of them. If the tax system throws this burden primarily upon the lower income groups among the employed, they will be less well off than if they had had to share jobs with the army of rural workers. If the burden is thrown upon the upper income groups through highly progressive income and death taxes, the ability and willingness of this group to perform the saving and investment functions upon which private capitalism depends can easily be destroyed. Government will then be forced to assume these functions, thus forcing the American economy over the line which divides liberalism from totalitarianism. To avoid this outcome, ways and means must be found to expand nonfarm employment opportunities at a rate sufficient to absorb the large labor surplus that continuously flows out of rural America under the combined influence of the high birth rate and the application of technology to the extractive industries.

The present war is solving the problem temporarily. Its imperious demands are opening up abundant opportunities for the rural labor surplus. But when the war is over much of this surplus will flow back onto the land unless adequate nonfarm opportunities emerge. Whatever the outcome of the war, the task of keeping open the avenues of flow from the extractive to the processing, handling and financing segments of the economy will constitute a major problem for generations to come. This is but another way of saying that the barriers obstructing population shifts between rural and urban occupations must be broken down if this country is to employ its human and material resources effectively and to enjoy social and political peace.

In the present chapter it is proposed to examine five national interventions with a view to determining whether they aid or obstruct the transfer of the factors from areas of lower to areas of higher productivity. We shall also consider whether they tend to promote the dispersion of economic activities or their further geographical concentration. The following measures will be examined: (1) the protective tariff; (2) the freight rate structure; (3) the Fair Labor

Standards Act; (4) recent Federal legislation affecting collective bargaining, and finally (5) Federal housing subsidies.

The Protective Tariff

The effects of the protective tariff on the Southern Region can be disposed of very briefly. Until fairly recently American commodity exports consisted largely of the products of our extractive industries. Foreign countries paid for them by selling to us the processed and semi-processed products of their industries. American tariff rates on these processed goods have long been high. The rates were intended to and did raise their domestic prices. Higher prices reduced the quantities demanded, and, behind the tariff wall, American industries developed which reduced still further the quantity and the value of these imports. But since the dollar value of these imports constituted the bulk of the foreign demand for American export products, the producers of export products were able to export less in value than would have been possible had foreign processed goods been admitted to the American market duty free. Since American exports were largely the products of American farms and mines, the population attached to this segment were adversely affected as buyers and sellers. The tariff shifted the terms of trade to their disadvantage. They were forced to sell in a world market and to buy in a protected market. The agrarian South suffered accordingly.

This shift in the terms of trade naturally hastened the expansion of the processing and the attendant commercial and financial activities in this country. The shift-over occurred at very different rates in different parts of the country. New England felt the impact of protection first and most severely. The Embargo of 1807, the Non-Intercourse Act and finally the War of 1812 upset the economy of that area and led to a rapid shift to industrial activities. The Civil War and the high protective duties of the post-war period speeded up the transfer to manufacturing in the Middle Atlantic States. The abundance of cheap land and the sparcity of population long kept the West agrarian in structure. The South Atlantic States also remained agrarian.

Why was this? Why was there not a similar shift from agriculture to industry and commerce in the old South? The persistence of the agrarian pattern in the South has led many to conclude that the region is peculiarly adapted to agriculture and that, consequently, the problems of the South should be resolved within the agrarian frame of reference.

Before accepting this thesis it will be well to review the forces which kept the South tied to agriculture. If some of these forces no longer exist, it may follow that the present agrarian emphasis no longer represents the most effective pattern of resource utilization. Several plausible reasons may be advanced for the failure of the South to break with the old pattern.

In the first place, the institution of slavery favored agrarianism in the ante-bellum South. Similarly the social prestige of landownership tended to direct Southern savings in that period into farming and slave owning. The capital of the South at the eve of the Civil War was in a highly illiquid form and all in one basket. The Civil War ended in defeat. Being fought on Southern soil, the material destruction was largely confined to the South. With the emancipation of the slaves and the repudiation of its war bonds the South was stripped of liquid capital. It had little left but its run-down farms. Its forests and mines constituted potential assets which would have to wait upon improved internal transportation. The Negro freedmen were illiterate and demoralized, fitted only for farming. Farming was also the only thing which most of the impoverished whites knew how to do, and for some years it was the only kind of work available. Liquid capital and industrial experience were alike lacking.

The economy of the South might nevertheless have been forced into a more diversified pattern had it not been for the high price and the quasi-monopoly which American cotton enjoyed in world markets, for several generations after the Civil War. This situation softened the impact of protectionism on Southern agriculture and made it natural that Southern leaders should aim at the reconstruction rather than the transformation of the Southern economy.

Finally there was still plenty of land in the South to be taken up and worn out. Erosion and population pressure had still to exert their full effects upon the Southern economy.

In brief, essentially temporary economic forces, plus inertia and ideological loyalties, all favored the reconstruction of the South along ante-bellum agrarian lines. By contrast, in the old Northeast, ideological and economic factors combined to hasten the shift from agrarianism, which had set in well before the Civil War. Agriculture there enjoyed no such comparative advantage as its cotton monopoly gave to the South. Northern farmers faced, on the one hand, a Europe of awakening nationalism, bent on developing its own agriculture, and on the other, the competition of the virgin soils of our own rapidly expanding West. These two pressure forced the pace of structural readjustment which the Embargo of 1807 had started in New England two generations earlier. The exodus from the farm lands of the Northeast to urban centers, as well as to the western territories, plus an ever rising tide of adult immigrants provided the cheap labor necessary to challenge European industrial supremacy.

New England's successful solution of her crisis had provided Northern industrialism with capital, experienced leadership, diffused by her prolific sons throughout the area, and social respectability—a combination which rendered the transition far easier than in the Southeast, impoverished by war, embittered by Reconstruction, and ideologically loyal to an agrarian way of life which had been as much a cause of the late war as slavery itself. To the dominant white element in the South in the generation following the war wholehearted acceptance of industrialization would have seemed both unnecessary and humiliating—the final victory of the Northern over the Southern way of life.

Thus during the critical years 1865-1885 an industrial pattern was being fitted upon the United States which has persisted down to the present. Carter Goodrich's thesis[1] rests on the assumption that this persistence provides adequate evidence of its economic sound-

1. See Chapter VII.

ness and that the task of planning is to provide the chronically surplus labor in the extractive segment of the economy with the skills and the mobility necessary to find employment in the areas of present industrial and commercial concentration. While the method of analysis developed in *Migration and Economic Opportunity* represents an important contribution to social inquiry, the conclusion is not entirely convincing. The persistence of the agrarian pattern is not necessarily proof that the Region is still at a comparative disadvantage with respect to industry. It may equally well be due to the well known difficulties of breaking with old established ways. It is this fact which gives validity to the infant industry argument. Professor Taussig's observation in his discussion of the territorial division of labor seems peculiarly appropriate to the contemporary South:

> When once an industry is conducted on a large scale, with elaborate machinery and a great output, it will tend to be concentrated. But there may be no strong reason for its concentration in one place rather than another. . . . . A considerable part of the division of labor between *regions* and a large volume of trade between them, seems to rest on this second cause (i.e., acquired efficiency) . . . . So far as they rest on acquired skill, there is at least a possibility that they may be superceded to advantage by similar division of labor and similar trade within the *region*.[2]

The Freight Rate Problem

The American railroad network was, on the whole, developed ahead of the traffic and with a view to the rapid settlement of a vast continent. This being the case it was entirely consistent with public policy that the rates on the products of the fringes of settlement should be set low enough to move them to existing processing centers. These products necessarily consisted of non-perishable foods and raw materials. They were accorded rates which did little more than cover the out-of-pocket expenses of the railroads. Another factor favoring low freight rates on American raw materials was the necessity of getting them to European markets in competi-

2. F. W. Taussig, *Principles of Economics*, 3 ed. revised, vol. I, pp. 46-7. In the text *regions* and *region* have been substituted for nations and country respectively. These substitutions clearly do not do violence to the passage since Taussig's illustrations are drawn equally from inter-regional and international experience.

tion with similar products from other raw material areas. Consequently higher rates were necessary on semi-processed and manufactured products. Thus a pattern of freight rates was established which was appropriate to the colonization period in American development. It would probably not have been adopted to the same degree had the country grown to its present population density without benefit of railroads. It may well be inappropriate to the present situation. But once adopted, can it be changed without doing more harm than good?[3]

The economic argument in favor of the present system of "charging what the traffic will bear" runs in terms of the economies of mass production. Raw materials can be assembled from great distances, processed and redistributed back over great distances to the ultimate consumers. Admittedly there is considerable waste motion in this excessive hauling and handling. This waste, however, may be more than offset by economies at the processing stage. They would be lost or greatly reduced if raw materials had to bear a heavier charge. It would then be necessary to process them closer to the centers of their production. Industries would be smaller and more decentralized, but the ultimate consumers would pay more. A subsidiary but important argument runs in terms of expediency. The present rate structure is largely responsible for the existing geographical pattern of industrial location. Billions of dollars in capital and millions of individuals are where they are because of these rates. The benefits of any radical alteration of the rate structure would have to be enormous to offset the damages.

These arguments speak decisively against any sudden and radical alteration of the structure. They do not preclude gradual modifications, however, particularly if it can be shown that a different pattern of rates would yield important social advantages. It is precisely because of its effects upon industrial location that the present rate structure is open to criticism.

3. Heavy fixed costs in railroading render rate differentiation, on the basis of ability to pay, inevitable and within limits economically sound. The above argument is merely that the spread is larger than would have occurred, had the invention of the steam engine come later.

The structure of rates constitutes, in effect, a subsidy to the scattered and isolated settlements found in all parts of the country. It also favors their perpetuation. True, we deliberately fostered this type of settlement in the exuberant colonization era. But it has become increasingly evident that some of the results have been unfortunate. Many states are now trying to evacuate submarginal areas and restore them to forestry or pasturage. Somewhat higher commodity rates now would quicken this evacuation, squeeze out whatever speculative value is still to be found in the local lands, and increase the incentive for letting nature rebuild the depleted soil and forest cover against the day when this nation will have need of them.

Low rates on raw materials complicate the problem of conservation. The existence of important virgin stands of timber in any part of the country postpones the time when reforestation becomes profitable in every other badly depleted natural forest area. Higher charges on shipments into the High Plains from the northern forest counties in the Great Lakes States would have slowed down the unfortunate settlement of the former area and led to a more orderly exploitation of the resources of the latter. Reforestation in the Lower South struggles today against the low costs associated with the exploitation of our Pacific Coast stands.

Similarly with our sub-soil resources. However distant a newly discovered deposit may be from existing processing and consuming centers a rate must be provided which will permit it to reach the market. The result has been abundance in the present with chronic over-production and wasteful premature abandonment of the less easily accessible deposits in older mines.

Finally "charging what the traffic will bear" appears to have promoted monopolistic tendencies in the processing industries. If plants were somewhat smaller and more widely distributed, the task of enforcing competition might be easier. Scattered plants might of course be under a single financial management bent on pursuing a monopolistic pricing policy. But on balance it would appear easier for "interlopers" to challenge such a policy if the capital re-

quirement necessary to attain optimum size were less. Those who attribute the relative lack of expansiveness in the processing segment of our economy to monopolistic practices will regard any change, which promises to break down this rigidity, as worthy of careful consideration. For upon our success in expanding nonfarm opportunities as an escape for our prolific farm population may well depend the system of capitalism itself.

If these considerations are sound, public planning may well be directed toward a gradual and moderate reduction of the spread between commodity and class rates. Such a change would favor the forces making for industrial dispersion upon which the future welfare of the Southern Region so heavily depends. It would not have to be very great to satisfy the legitimate interests of the Region providing that, at the same time, the inter-territorial freight rate structure were revised. The South suffers more from interterritorial rate discrimination than from the type of commodity rate discrimination just discussed.

The issue involved can be stated in the form of a question. Should commodities shipped into Eastern territory from Southern territory pay more, mile for mile, than similar commodities shipped between points entirely within Eastern territory? A few examples will illustrate the prevailing situation and clarify the subsequent discussion.[4]

Cotton. Rates on compressed bales move, mile for mile, on the same rates within Southern as in Eastern territory. No discrimination other than the appropriate one of distance exists. Rates on unfinished cotton fabrics, however, are 10 per cent higher into than *within* Eastern territory. The disparity rises thereafter with the degree of processing. For bleached cotton the difference is 11 per cent; for oilcloth, 54 per cent. *Cottonseed:* In the form of cottonseed oil the disparity is 7 per cent; salad oil, 24 per cent; oleomargarine,

4. These examples and much of the ensuing argument are taken from "Freight Rates—The Interregional Tariff Issue," by Henry B. Kline, Associate Economist, Tennessee Valley Authority, No. 3, *Papers of the Institute of Research and Training in the Social Sciences,* Vanderbilt University (Nashville, April, 1942). See also The Tennessee Valley Authority, *The Interterritorial Freight Rate Problem in the United States,* House Doc. No. 264, 75. Cong., 1st Session. (1937)

35 per cent. *Pig iron:* Rates *into* are one per cent lower than those *within* Eastern territory; but steel plates manufactured in the South pay 27 per cent more on moving into Eastern territory than plates moving entirely within Eastern. On handtools the difference is 51 per cent.

These disparities raise a number of questions. What are their effects on territorial specialization? How did they come about? Are they justified by real differences in transportation costs? If not, what is the remedy?

The effects are obvious. They put a premium upon shipping raw materials destined eventually for Northern consumer markets out of the South *before* processing. Even processing for the low-income Southern market is further handicapped by the fact that processed goods from production centers in Eastern territory can penetrate far into Southern territory at lower rates for equal distances than similar goods moving entirely within Southern territory.[5] The rate structure thus makes it economically profitable to ship Southern raw materials North to be processed and back into Southern territory to be consumed. This situation has led critics of the interterritorial freight rate structure to characterize it as a protective tariff thrown around the great Eastern "industrial quadrilateral."

How did this situation arise?

The interterritorial rate structure is due to the fact that the country is divided into a number of rate territories.[6] The rate structure in each territory is based upon the principle of charging what the traffic will bear. Rates and services for given distances and commodity classes are practically identical *within* each territory. Between territories, however, rates differ markedly. An understanding of the precise way in which the territorial rate structures differ from one another is necessary to an understanding of the reason for the anomolies described in the preceding paragraphs.

5. For examples see Thomas F. Green, Jr., *The Significance of Freight Rates to the People of Georgia,* Institute for the Study of Georgia Problems, Pamphlet No. 6, July, 1940.

6. "Official," "Southern," "Western Trunk-Line," "Southwestern," and "Mountain-Pacific."

Freight rates fall largely into two great groups—class rates and commodity rates. Commodities moving on class rates are grouped into some dozen numbered or lettered classes. Each class below the first is given a rate expressed as a percentage of the first class rates. Goods not included in one of these classes move on special or commodity rates. For the purpose in hand it is enough to note that in general commodity rates apply to bulky products of low value—primarily non-perishable foods, fibers, and raw materials—while class rates apply to articles of relatively high value—predominantly processed commodities. In all territories class rates are substantially higher than commodity rates, in accordance with the principle of charging what the traffic will bear. There is a pronounced difference, however, in the spread between commodity and class rates within the territories.

"It is generally on the higher grades of traffic that the rates in the South are higher than in the North. In other words, the rates within the South are relatively high on processed or manufactured goods, and low on basic commodities, the reverse being true in the North and East." [7]

The Tennessee Valley Authority has estimated the class rate spread between Eastern and the other territories as follows:[8]

Eastern	100
Southern	139
Western—Trunk Line	147
Southwestern	166-175
Mountain Pacific	171

Goods moving between territories are accorded rates falling somewhere between the rates prevailing in territory of origin and territory of destination, "the exact place varying with the distance in each territory." [9]

7. Quoted from reprint of Address by E. R. Oliver, Vice-President in charge of Traffic, Southern Railway System, *Southern Freight Rate Differentials and Their Effects upon Southern Industry,* delivered before the Institute of Citizenship. Atlanta, Georgia, Feb. 15, 1939, p. 10.
8. See Kline, p. 7. Also TVA, *Freight Rate Problem,* pp. 11-14 for method used in calculating these relationships.
9. Kline, p. 4.

This method of interterritorial rate making explains the apparent anomaly of commodities originating in Northeastern territory moving over Southern lines at lower rates than those enjoyed by similar commodities produced and moving wholly within Southern territory—and conversely products originating in the South moving to Northern markets on lower rates than those accorded competitive Northern products moving wholly within official territory. It is important to note, however, that the first anomaly favors the Northern processor while the second favors the Southern producer of raw materials. The over-all effect is to perpetuate the existing territorial specialization.

Northern industries, railroads and shippers naturally favor the present situation. There is no corresponding unanimity of opposition in Southern territory. In general Southern shippers of raw and lightly processed products are well served and well satisfied. The same is true for matured and well established industries in the Region. Southern railroads have looked out for them reasonably well. This point is stressed by Southern railroad officials who tend to regard the whole problem as manufactured by politicians anxious to find a popular election issue.

Railroad men argued[10] that they are serving the South well and that the abolition of territorial differentials would bankrupt every Southern road. They point out that the South is predominantly agrarian and that it would seriously affect these agrarian interests if rates on bulky commodities were raised in order to make possible lower rates on processed goods. This solicitude need not and has not prevented the railroads from providing reasonable rates to any industry desirous of establishing itself in their territory. Rate discrimination calculations, such as those made by the TVA, it is said, are entirely misleading. Under I. C. C. regulations the railroads must maintain rates on every conceivable commodity.[11] Consequently their tariffs are cluttered up with thousands of "dead letter"

10. An excellent statement of this point of view is to be found in Mr. Oliver's Address previously cited.

11. Southern Classification, the published rate book for this territory, contains 14769 items affecting class rates alone. (Oliver, p. 4.)

items such as on wine from Tennessee to California. Many of these rates are admittedly prohibitive but they can and will be changed when and as necessary. The railroads are eager to attract new industries into the territories they serve. They will accord such industries reasonable intraterritorial rates and will fight shoulder to shoulder with Southern industries for interterritorial rates which will permit them to enter Northern consumer markets.

A blanket downward adjustment, however, of all class rates to levels prevailing in Official territory would bankrupt them unless they were authorized to raise commodity rates substantially. This is said to be due to less advantageous traffic and transportation conditions prevailing in Southern territory—notably with respect to traffic density. In 1937 Northern roads had about two and one-half times as much traffic per mile of road as Southern roads. "With this greater traffic density Northern railroads can transport traffic at a materially less cost per mile than can the Southern railroads." [12]

Both these assertions have been challenged. Mr. Kline, for example, argues that the willingness to accord reductions "if Southern manufacturers and producers could show that present tariffs act to retard the movement of their traffic to points in the North and East" is no substitute for low rates actually on the books.

> Normally prudent investors do not sink money in new undertakings until every possible residual hazard has been accounted for. If the level of freight rates is a vital organ in the economy of the proposed enterprise, the attempt to gain assurances may very well end up in each party's insisting on the other's making the first move—the railroads demanding to see the traffic or at least some capital investment as an earnest of good faith, and the prospective shipper demanding that the rates be made right before any investment will be committed. The game of chess provides a name for this situation. If free-will concurrence cannot be obtained, the only relief lies in an appeal to the Commission, which will probably be protracted, certainly be expensive, and also doubtful of outcome. It is probably not unjust to say that the Commission itself, like the railroads, is disposed to grant relief only to enterprises already in production.[13]

12. Oliver, p. 6.
13. Kline, pp. 19-20. In justice to the railroads it should be pointed out that their unwillingness to experiment more freely with promotional rates may be due in part to the policies of state and Federal rate making authorities; the railroads have learned from sad experience how easy it is to reduce an unduly high rate and how difficult it is to secure authority to raise an unduly low rate.

This observation sounds reasonable. More than that, the situation would appear to favor Southern industrial development by Eastern rather than Southern capital, and in the form of branches rather than independent plants. When Eastern capital contemplates a Southern location it is likely to involve a substantial proposition warranting respectful attention from Southern traffic departments, particularly since the promoters are free to play one line off against another. Southern capital on the other hand, is more likely to be concerned with modest ventures associated with a single individual or small group of investors. The promoters are more apt to be geographically tied. If the South is to move into industrialism via many small, scattered and locally supported ventures, there appears to be a case for a more wholesale revision of class rates than the railroads have as yet been willing to accord. The fact that this might involve a *moderate* general increase on Southern commodity rates is not a serious objection.[14]

The cost argument in defense of the present structure is technical and difficult for an outsider to appraise with any confidence. The TVA studies challenge the contention of the Southern railroads. The TVA study presents rather convincing evidence against use of traffic density as a measure of unit costs because it measures only line-haul costs and not terminal costs. Terminal costs are said to increase sharply with volume of traffic and to offset the decreasing line-haul costs in official territory. An I. C. C. study showed Southern costs on both a gross ton-mile and loaded car-mile basis to be slightly below Eastern costs in 1928. A recalculation made for 1933 showed somewhat larger spreads.[15] A still later study (1939) confirmed the earlier ones. It showed that actual dollar *costs* varied relatively little as between territories while *charges* in other territories were way out of line with those prevailing in Eastern territory. In the case of 600 mile hauls in box cars of 20 tons net load—to cite a specific example—Southern costs were the lowest while Eastern

14. See p. 174 above.
15. TVA, *Freight Rate Problem*, p. 56.

costs were the highest. Eastern charges on the other hand were the lowest and well below those in the other territories.[16]

If these cost findings are correct the South appears to have a valid complaint. Herein may be found at least a partial explanation for the surprising persistence of industrial concentration in the 200 counties upon which the Goodrich argument relies so heavily.

What is the remedy? The ultimate goal appears to be the nationalization of the freight rate structure. The approach should be gradual in view of the enormous commitments which have been made on the basis of the existing discriminations. Drastic changes would cause suffering which would be both unreasonable and politically dangerous. Gradual change on the other hand would permit individuals and areas to make adjustments without excessive difficulty. The industrialization of the South and the resulting rise in Southern purchasing power would increase interregional trade and interregional railroad traffic. On balance and over a period of years the railroads may be expected to benefit from this increased interchange.

The Fair Labor Standards Act

The Fair Labor Standards Act, which went into effect on October 24th, 1938, establishes minimum hourly rates of pay and maximum hours of work per week for which these minimum rates shall apply. It affects all employees engaged in interstate commerce or in the production of goods for shipment in interstate commerce. The minimum rate was set at 25 cents per hour for the first year, 30 cents for the following six years and at 40 cents an hour after October 23rd, 1945. The maximum normal work-week was fixed at 44 hours for the first year, 42 hours for the second and thereafter

16. The exact situation was as follows:

	Eastern	Southern	Southwestern Zone III	Western Trunk-Line Zone II	Mountain Pacific
Charges	380	528	616	560	640
Costs	137	124	131	136	133
Difference	243	404	485	424	507

The charges were for December 31, 1941, the costs are taken from the 1939 I. C. C. study. For details regarding these studies see Kline, op. cit.

40 hours. Like the Social Security Act, it does not affect most workers in the South's dominant industry—agriculture. However, the interpretation of interstate commerce has been stretched to bring in workers whom the layman would suppose to be immune. Thus a small lumber mill deliberately selling entirely within a state and employing local farm help is liable if "the employer intends, hopes or has reason to believe" that his product will eventually move in interstate commerce.[17] Apparently the law has endowed its administrators with the capacity to wrest from the innermost reaches of men's minds their true intent. Two hundred Tennessee farm families, cracking walnuts of a winter evening on contract for a Nashville concern, were declared to be engaged in interstate commerce and the business was destroyed because they were not earning twenty-five cents an hour. The complaint came from the pecan industry. The families "later went on relief and the prevailing style in pralines this winter will be pecans instead of walnuts."[18]

The Act does not rigidly limit hours to 40 per week. On the contrary both parties are permitted to contract for longer hours providing the rate of pay shall not be less than time-and-one-half the prevailing legal minimum. Nor does the Act guarantee that the minimum rate shall not be pushed to 40 cents in advance of the legal time schedule. The Administrator may order any industry to pay the highest possible minimum wage, within the 40 cent limit, which will not substantially curtail employment or give a competitive advantage to any group. Such advances, however, must have the approval of industry committees appointed by the Administrator in equal numbers from representatives of the employers, the employees and the public. The Administrator is also authorized to keep the minimum as low as 30 cents an hour after October 24, 1945, where it can be shown that the 40 cent minimum would

17. John F. Maloney, "Some Effects of the Federal Fair Labor Standards Act upon Southern Industry," p. 11 of Mimeog. Paper presented at the November, 1941, meeting of the Southern Economics Association.

18. From a paper, *The Fair Labor Standards Act*, prepared and read by Cecil Sims, a prominent Nashville attorney before a local club, April 18, 1941.

cause "substantial curtailment of employment in the industry." He may further issue certificates of exception for learners, apprentices and other handicapped workers.[19] The over-all effect is to make labor eager and management loath to incur over-time.

In recommending minimum rates in excess of 30 cents an hour, the industry committees are instructed to take into consideration: (1) the effect upon employment; (2) the conditions of competitions, such as transportation, living and production costs; (3) wage agreements for work of like character between employers and employees, when made by representatives of their own choosing; (4) absence of competitive advantage to any group in the industry. Regional differences, however, are expressly excluded. "No minimum wage rate shall be fixed solely on a regional basis."

The official arguments for the measure were incorported into the Act as "findings in fact." Low wages and long hours are declared to affect the health, efficiency and general wellbeing of employees, constitute unfair methods of competition, cause labor disputes, strikes and interference with the orderly and fair marketing of goods in interstate commerce. In upholding the act as a valid exercise of the commerce clause the Court expressly declared itself bound by this statement of fact. The purpose of the law, declared Justice Stone, is plainly to make effective "the Congressional conception of public policy that interstate commerce shall not be made the instrument of competition in the distribution of goods produced under substandard labor conditions, which competition is injurious to the commerce and to the States from and to which the commerce flows. The motive and purpose are matters of the legislative judgment upon the exercise of which the Constitution places no restrictions and over which the Courts are given no control." [20]

In another decision handed down on the same day the Court sustained the Administrator's order fixing a 32½ cents minimum

19. Walter E Boles, Jr., *The Fair Labor Standards Act with Emphasis upon Certain Regional Aspects.* An unpublished Ph.D. thesis (Vanderbilt University, October, 1939).
20. U.S.v. Darby Lumber Co. (February, 1941) as reported in *The New York Times,* Feb. 4, 1941, p. 1. The decision was unanimous.

hourly wage for the textile industry on the basis of an industry committee recommendation. The Administrator's findings were declared to be in accord with the legislative definition of Congressional policy. "Any different conclusion would require us to substitute our judgment of the weight of the evidence and the inference to be drawn from it for that of the administrator, which the Statute forbids."[21] If every Congressional statement of fact is henceforth to be binding upon the Court we shall have taken a long step toward the British concept of constitutionality. We shall have greatly increased the power and the responsibility of the Congress and the Executive. Our dependence on their wisdom will be greater than ever before. This shift need not involve any weakening of democratic institutions, since the Congress and the Executive are both responsible to the people. There is very real danger, however, that in the play of pressure groups at the national level, legitimate regional interests may be overridden. In the next chapter we suggest the need of an additional independent advisory commission to provide us with competent and impartial appraisals of the probable effects of legislative measures. Here, however, we are concerned only with the Fair Labor Standards Act as an expression of the new powers accorded to Congress by the reconstituted Supreme Court. Particularly we want to know whether this act shows due regard for regional diversities? Does it promise to promote or retard the legitimate aspirations of the Southern Region?

Before attempting to answer these questions it may be well to consider the Act as a war measure. The hour limitation with the penalty for over-time was a depression inspired device for spreading work. Only falling unit costs or rising prices would make it worth while for an employer to work his men over-time—and only then if unemployed labor of equal competence were unavailable. With the disappearance of idle men and idle plant, the law provokes a substantial rise in costs. This situation had been reached at just about the time the 40 hour maximum went into effect. Thereafter the "ar-

21. Opp. Cotton Mills v. Administrator of the Wage and Hour Division of the Department of labor as reported in *The New York Times,* Ibid.

senal of democracy" had to operate under this depression inspired piece of legislation. Its effect should not be exaggerated. Men are not forbidden to work over-time. Indeed labor is eager to get the higher over-time rates. And they can get them in war industries where rising costs are no obstacle. But it is otherwise in enterprises producing for civilian needs. Caught between price ceilings and rising labor costs, they have been loath to extend hours beyond the legal normal. For one segment of the economy the law continues to provide its intended share-the-work incentive when the national interest calls for willingness on the part of all to work harder and for less.

The longer the present 40-hour normal persists the more difficult it will be to modify it. It is much more painful to accept a reduction than to forego an increase in the first place. It may now be unwise to suspend the over-time provision of the law on account of the effect upon worker morale. Legislative experiments cannot simply be repealed when their effects prove bad. Forces set in motion by legislative action are frequently irreversible.

But a still more serious charge can be brought against the Fair Labor Standards Act as a war-time measure. It increases the risk of uncontrollable inflation. Time-and-one-half has speeded up the advance of wages just when the flow of consumer goods was being sharply curtailed. In a very real sense rising wages, and, it should be added, rising farm income, are bound to disappoint their beneficiaries. Unless these mounting incomes can be prevented from flooding the consumer goods market, the pressure on prices will be enormous. To protect low and fixed income groups the government has been obliged to set maximum prices on almost all consumer goods. Comprehensive rationing will also be necessary. These measures would be necessary in the absence of this particular piece of legislation, but enforcement has been made more difficult due to widely diffused and needlessly excessive wage increases. Special taxes and voluntary and compulsory borrowing can be used to draw off the excess income but here too administrative and political difficulties are great. In war-time it is the part of wisdom for

government to stress measures designed to keep down personal incomes rather than measures designed to prevent consumer goods prices from rising. The more widely rising incomes are diffused—a legitimate objective of peace-time policy—the more difficult becomes the task of preventing inflation. Conversely, the more narrowly the rising tide can be concentrated, the easier the task of control. "The profiteer is of more use as a collector of funds for the government than the wage-earner." [22]

The threat to morale precludes the deliberate use of the profiteer as tax-gatherer. But the threat to efficiency should equally preclude measures which deliberately spread and quicken the inevitable war-time rise in money incomes. From this point of view the Act came at a particularly unfortunate time. It has hastened and continues to hasten the rise in money wages; it spreads dissension and creates suspicion as to the patriotism of labor and capital alike; it has helped make it necessary to shift the financing of war contracts to the wasteful "cost-plus" basis of the last war—another inflationary threat. Meantime, confronted by a growing shortage of labor, employers in essential consumer goods industries are caught between the upper and nether millstones of price ceilings and penalty rates for over-time. At the very time when the national interest calls for an extension of the working day to the efficiency limit, these employers are interested in spreading work. In brief, it is difficult to conceive of a national measure so badly adapted to the requirements of a country at war.

What is to be said for the Fair Labor Standards Act as a permanent peace time measure applied to a nation with marked regional diversities? In particular, will it help or hinder the industrialization of the South?

As a peace time measure the over-time penalty, so objectionable in a war emergency, may prove to be a useful addition to the Federal battery of cycle control measures. It may put a desirable break upon expansion in the final phase of the up-swing, when business has scraped the bottom of the labor barrel, and is forced to choose

22. Hicks, J. R., and Others, *The Taxation of War Wealth* (New York and London, 1941), p. 15.

between hiring costly submarginal labor or paying a higher rate for additional hours for superior workers. It might even be desirable to adjust the normal work-week to the phases of the business cycle if we could be certain of our business indicators and of the administrative capacity of our government. Rising labor costs would slow down the last speculative excesses of the boom. Rising labor incomes would maximize the flow of income into the consumer goods market just when the flow of final consumer goods reaches a maximum as a result of the completion of expansion programs launched in the earlier phases of the expansion. While a uniform 40-hour limitation regardless of the nature of the work is decidedly dubious, the principle of a maximum normal work week contains a promise which warrants continuation of the experiment in the post-war period.

The principle of a minimum wage is more debatable. The main supporting argument appears to be that a wage below a certain minimum makes it impossible for a worker to provide for himself and his family the food, shelter and health protection necessary to prevent him and his family from becoming a charge upon private or public charity. In our terminology, the employer is not meeting the indirect costs of his enterprise. His costs are less than total social costs. The principle of responsibility is violated. Hence society is justified in making it illegal to hire workers at less than a subsistence wage. Since the laborer might dissipate part of this subsistence wage in a frivolous fashion and then fall back upon public or private charity, society is further justified in withholding a portion of the wage to insure itself against this possibility. The compulsory contributory social insurances fit nicely into the picture at this point.

It is obvious, however, that the minimum wage will cause some unemployment. Employers will not employ workers who are not worth the minimum. The higher the minimum, the larger the volume of involuntary unemployment. If the minimum is reasonable it may be presumed that those thereby thrown out of employment are unable to contribute as much as the public conscience

deems it desirable that they should withdraw from the national dividend. A minimum wage may lead to the clearer identification of this submarginal group and prepare the way for a more intelligent diagnosis of the causes for their low productivity. Since an accurate diagnosis is a prerequisite to a successful solution of the underlying problem, the principle of the minimum can be defended not as an end in itself but as a contribution to the solution of a larger social problem. But unless society is prepared to provide for those who are thus legislated out of the labor market, their fate may be worse than before. A minimum wage is not a humanitarian measure unless it is supplemented by relief and rehabilitation.

If the minimum wage principle is applied to only one segment of the economy and if the relief and rehabilitation programs are inadequate, the end result may be to force into the unprotected segment the group legislated out of the protected segment of the economy. If rewards in the unprotected segment are lower than in the protected segment, the disparity between the two will be increased, and the national income reduced.

The Fair Labor Standards Act is open to just this charge. The agricultural segment of the economy is explicitly exempted from its provisions. This segment is overstaffed with a prolific population. For millions caught therein rewards are pitifully inadequate. Public policy should be concerned with the transfer of population from this segment into the processing and servicing segments of the economy. The new national minimum wage will force more people into this part of the economy or at least increase the difficulty of transferring them out of it. It constitutes a tariff barrier thrown around the segment of the economy already enjoying a differential advantage. With the return of peace the law as it stands promises to put the burden of this legislation upon the shoulders of the agricultural population, particularly upon the farm labor and small tenant class.

If the above analysis is correct it follows that the predominantly agrarian parts of the United States will be adversely affected by the law as it now stands. From the point of view of the agrarian South

this law deserves to be classed with the protective tariff and the freight rate structure as an additional protective barrier thrown around the "industrial quadrilateral," as an additional obstacle to diversification.

The defect in the Act is not the principle of the minimum but the failure to provide for reasonable regional differentials. This defect could be largely offset if the Administrator and the industrial committees would give maximum weight to differences in living costs between communities of different sizes. The wording of the law permits this type of differentiation.

To insist upon the payment of the same money wage for identical work in communities of very different sizes, in the fact of appreciable differences in living costs,[23] is to insist that workers, in low living cost areas shall receive a higher real wage than those in high living cost areas. The resulting equilibrium is unstable. Conceivably the differential might induce labor to migrate toward the low cost communities. This would force employers in the high cost communities to raise money wages till real wages had been equalized. In fact, however, labor moves almost entirely in response to job opportunities. A uniform minimum wage is likely to reduce the incentive of capital to shift to low cost communities. It tends to reduce capital mobility to the advantage of congested areas. The Fair Labor Standards Act as now administered is thus defective because it imposes an undesirable degree of mobility upon labor. Sound planning measures should emphasize mobility of capital.[24]

The mere fact that industries located in low cost areas are able to pay higher wages does not justify the imposition of a minimum money wage equal to that in high cost areas. The function of the

23. See Boles, *op. cit.*, p. 221, footnote 55 for literature regarding intercity differences in costs of living and p. 225. A Bureau of Labor Study (U. S. Bureau of Labor Statistics, Vol. 49, Sept., 1939) of average hourly wages in the shoe industry revealed a difference of only 13 per cent between New England and a group of Southern States. But when wages were measured on the basis of size of community the differences were marked. Rates in towns of less than 2,500 were 10 per cent below those of small cities (under 10,000) and 34 per cent below those in metropolitan areas of more than a million. The rates in small cities were 27.5 per cent less than those in the metropolitan areas (p. 591). A similar relationship was revealed in the knitted outerwear industry. (p. 1196).

24. See pp. 100, 146 above for the supporting theoretical argument.

"excessive" profits enjoyed by these plants is to induce further expansion there rather than in high cost areas. There is no exploitation of labor as long as the locally prevailing rate of wages is being paid. To eliminate the excessive profits by transferring them to the laborers attached to these plants is to destroy one of the important functions of profits. Their elimination prevents a desirable expansion of production, forces consumer to pay more than would otherwise be necessary, and freezes the industrial location pattern in favor of high cost areas. If these excessive profits do not lead to plant expansion, monopoly may be presumed. It should be attacked directly, but if, for some reason or other, the monopolistic practices cannot be stopped by legislation, the excessive profits should be secured for the general public through a special excess profits tax rather than turned over to a favored group of workers.

The war broke upon us too soon to permit of any very convincing empirical proof of the validity of the theoretical case against the Act. Labor shortages and rising living costs rapidly reduced the significance of the 40 cent minimum. Nevertheless, since a new minimum will doubtless be set after the war and in keeping with the then prevailing wage level, it may be worth while to submit some scattered evidence.

Mr. John F. Maloney of the National Cottonseed Products Association, in a paper read at the 1941 meeting of the Southern Economics Association, traced employment trends in three typically Southern industries—the cottonseed industry, the seamless hosiery industry and the lumber industry. In the cottonseed industry the Act appears to have led to a narrowing of wage differentials between classes of workers, a reduction of employment of hourly workers by 19 per cent in oil mills during the first two years of the Act, the introduction of labor-saving machinery, and, most significant of all from our point of view, the concentration of business in larger plants located in larger centers. In the seamless hosiery industry, employment in plants paying less than 25 cents per hour fell off by 7.3 per cent during the first nine months of 1939 as compared with the corresponding months of 1938, despite a rise of 10.1 per cent for

the industry as a whole; labor-saving machinery was introduced at a more rapid rate than in the previous period and inefficient workers were discharged. Employment in Northern plants increased by 4.9 per cent in 1940 over 1938, while it decreased by 5.5 per cent in the South. In the lumber industry Mr. Maloney discovered an increasing tendency to mechanization and he noted that the small scattered stands in the South lent themselves less readily to mechanization than those in the Far West.[25] These results conform to theoretical expectations. It seems reasonable to conclude that the Fair Labor Standards Act, as now administered, handicaps the South. In the post-war period it should be amended to make mandatory either regional differentials or differentials according to accurately determined community costs-of-living studies.

Collective Bargaining

Trade unionism is meaningless without the power of collective bargaining. Under the common law collective bargaining was outlawed as a conspiracy. Well before the close of the last century, however, statute law had raised it to the status of a "liberty," i.e., a privilege unaccompanied by a corresponding duty on the part of someone else. Laborers were free to bargain collectively, providing they could persuade employers by legal means to enter into collective contracts. New Deal legislation, beginning with the National Industrial Recovery Act of 1933 (§7a) Act and culminating in the National Labor Relations Act of 1935, has advanced this liberty to the status of a right. Organized labor can now summon the most powerful employer before the highest court in the land if he refuses to negotiate with the freely chosen representatives of the workers, providing only that a majority desire to be so represented.

We have discussed elsewhere[26] the place of collective bargaining in a liberal society. Our concern here is with the regional implications of the development of this new right.

The trade union movement has its stronghold in the old estab-

25. John F. Maloney, *op. cit.*
26. See Chap. I, especially pp. 35-7.

lished industrial centers. It is generally weak in areas where modern large scale enterprise is lacking. With the tendency of industry to spread into these areas, the bargaining position of labor in the older centers is weakened. Unless labor in these outlying parts can be organized and induced to demand wages more nearly comparable with those prevailing in the older centers, existing wage agreements are threatened. Whole industries may even migrate to unorganized communities if the unions refuse to accept lower wages. The shift of the cotton industry to the South appears to have been hastened by strong unionism in the North and the absence of unionism in the South. From the point of view of labor and of management in thoroughly unionized areas, the unionization of competitive industries throughout the country seems desirable.

To the average labor leader and to the man-on-the-street it seems self-evident that workers doing similar work are entitled to equal pay regardless of where the work is performed. If a dollar an hour is a fair wage in Detroit then it is also a fair wage in a competitive industry in Alcoa, Tennessee. In reality the proposition is by no means self-evident. Unless there is a large element of labor monopoly in the situation, the dollar an hour in Detroit reflects the concentration of capital there and the abundance of alternative opportunities for labor. An employer has to pay very close to that rate to prevent other employers from raiding him. Conversely, in a rural area, where the industrial tradition is lacking, where labor is abundant but unskilled, and where alternative opportunities are few and poorly rewarded, the Detroit scale of wages is unnecessary to secure labor, and to require it would strangle competitive industrial developments in their infancy. Uniform rates of pay, enforced by nationally organized collective bargaining, are as unsound economically as uniform rates imposed by legislative fiat.

The application of the above reasoning to the South is clear. If Southern labor, using the term to cover agricultural as well as non-agricultural labor, were aware of its own long-run interests, it would oppose the elimination of regional wage differences. Their willingness to do so, however, is very doubtful, in view of the seeming

fairness of the slogan "equal pay for equal work." The persuasiveness of the argument that high money wages are essential to the operation of a mass production economy also complicates the problem. When economists in high positions have forgotten that high wages are the result and not the cause of high productivity, the confusion of the rank and file of labor is understandable.

The New Deal has officially supported the high wage doctrine and the equally untenable thesis that the welfare of an over-specialized and over-populated area will be promoted by the elimination of regional wage differentials through wage manipulations. A recent (February, 1942) decision of the War Labor Board against the Aluminium Company of America illustrates the new trend. The Board ordered the Company to advance its basic pay by 7 cents an hour in its Alcoa, Tennessee (population, 5,131) and its Badin, North Carolina (population, less than 2,500) plants, bringing them up to 62 cents an hour as compared with the 75 cents prevailing in its Edgewater, New Jersey, and its Detroit plants. The company was financially able, declared the Board, to take the lead in the "gradual and steady progress" toward the elimination of the North-South wage differential.[27] The Board appears to have been unconcerned as to how the old 56 cents an hour basic wage compared with the going rate in Alcoa and Badin, or with the inflationary aspects of a wage increase in war time, or with whether the profitability of the latter plants might not lead the Aluminum Company of America to concentrate its expansion program there rather than in Edgewater and Detroit. Regional wage differentials are simply declared to be undesirable and to be eliminated as rapidly as possible. It would appear to follow that the existence of regional wage differentials is a legitimate cause for striking and that the Federal offices concerned with labor relations will support labor's efforts to eliminate them.

These considerations oblige us to add collective bargaining on a national scale to our list of obstacles to the diversification of the Southern economy.

27. From an Associated Press dispatch in the *Nashville Tennessean*, February 13, 1942.

The solution of the freight rate problem appears to call for the gradual nationalization of the rate structure. In this case a breaking down of national bargaining is required. The latter is going to be much harder to accomplish than the former. Millions of individuals are directly and consciously involved. Unions with nation-wide jurisdiction have long existed. Important business interests, having reconciled themselves to collective bargaining, want to see it operate on a national scale.

Unionism should be a means of increasing plant loyalty by providing a mechanism for reducing frictions, stamping out petty tyrannies and channeling up to management the ideas and suggestions of the operating staff. Ideally, a really independent company union appears more likely to develop this loyalty than does the present organization in which the local union looks to a national organization for leadership and financial support. In actual practice, however, too many company unions of the recent past deserved the suspicion in which they were held by good labor men. They were company dominated. Their primary purpose was to prevent the men from developing a genuinely independent bargaining organization.

But have not conditions changed enough in the last decade to warrant further sympathetic experimentation with the independent company union? Labor has been provided with at least limited protection against the hardships of unemployment and the vicissitudes of old age. Some form of health insurance appears to be in the near offering. A continuing program of public works is likely to become an accepted function of government. Adult vocational education will increase the adaptibility of labor. Employment offices will promote the smoother articulation of men and jobs. The right to unionize is now the law of the land. A minimum wage law protects the weakest members of the labor group. In view of these immense changes in the status of labor, is there need for the aggressive type of unionism which may once have been justified? With the state standing by to see that the men are really free to choose their own leaders, to protect them against discrimination, to provide

them with work opportunities in periods of depression, would not their bargaining position be as strong as is consistent with the requirements of a healthy free enterprise system?

There is little prospect that the independent plant or industry union will make headway against the great national unions. Probably the best we can hope for—and a faint hope at that—is acceptance by government of the desirability of wage differentials based on differences in costs of living as between communities of different sizes. Something could be accomplished if all Federal agencies concerned with labor disputes would recognize the weak position of a union in a strike called on the ground that a company can afford to pay more. Application of the prevailing wage test of reasonableness would strengthen the hand of management in resisting unjustified wage demands. Consumers have no interest in getting their wants satisfied by producers located in high cost areas. If a given money wage in a small community provides the equivalent of a higher money wage in a metropolitan district, economic and social considerations alike point to the desirabilty of expandng producton in the smaller community rather than in the congested area. Authoritative equalization of money wages subsidizes industrial concentration at the expense of consumers and of agrarian regions generally. If private enterprise in certain depressed areas cannot pay a living wage the remedy lies not in lavish public works and authoritative wage fixing but in the promotion of population transfers and in the development of nonfarm activities. For these quite different techniques are required. Meantime, in such areas, substantial wage differentials may enable private enterprise to develop new and eventually more remunerative activities.

United States Housing Authority and Decentralization[28]

The social and economic validity of our great cities has been increasingly questioned of late. Do they owe their present size to

28. The editor of the *Planners' Journal* (published quarterly by American Institute of Planners) kindly authorized the use of an article of mine bearing the same title, which appeared in the April-June, 1940, issue. Very minor charges have been made to fit it into the text.

genuine locational advantages or to artificial favors? In this section we propose to examine this issue in connection with the program of the United States Housing Authority. To anticipate our conclusion, we believe that Federal housing subsidies favor the existing urban concentration pattern and hence obstruct that diffusion of industry so vital to the welfare of the Southeast.

The problem calls for some analysis of the forces which shape and determine the national population pattern.

The industries and occupations producing the goods and services which make up the national income may be classified for the purposes of this analysis as "tied" and "foot-free." Populations attached to the extractive industries—farming, forestry, mining and fishing—are tied to their resource bases. The extractive industries are dispersive.

The processing industries are more or less foot-free. Processes which result in a rapid loss in bulk at early stages of production tend to cluster close to their sources of supply. As bulk declines and value of product increases, the processes involved become increasingly foot-free. Enterprisers tend to seek locations which offer maximum economies from the point of view of assembling raw materials, labor and capital and of distributing their products to final consumers.

The middlemen, wholesalers, and retailers make the same calculation in the selection of their sites. On the whole the advantages of being near their sales outlets appear to outweigh the advantages of proximity to their sources of supply. Concentration operates more strongly on middlemen than on processors. The investment, banking and insurance fraternities—the middlemen between producers and savers—are among the most foot-free. There is a pronounced tendency for them to concentrate in the large urban centers.

The transportation industry is, on the whole, dispersed as it serves as the connecting link between the raw material producers, the processors and the final consumers. The managerial branches, however, have within considerable limits, freedom of choice as to

the exact place of location within the areas they serve.[29]

Once a commitment has been made, a particular enterpriser ceases to be free. He may even expand operations at a site that no longer represents the best possible location, because of the impossibility of physically separating the addition from the original plant investment. Nevertheless, over time, and within limits that are economically significant, foot-free activities do tend to gravitate to low-cost areas.

The tide of population has long flowed from the "tied" extractive segment toward the "foot-free" processing and service segments of our economy. The extractive segment is continuously under pressure to expell population. At least three forces generate this pressure: the high natural rate of growth of the attached population; the inelasticity of consumer demand for many of the products of the extractive industries; and technological progress in the extractive industries. The "foot-free" industries must take up part of the unemployment slack caused by technical progress in the extractive industries as well as that due to innovations in its own area. Since the natural situs of most of the foot-free enterprises is in cities, technical progress tends to increase the proportion of the population classified as urban or suburban.

Where these foot-free enterprises actually locate determines, in the long run, where the bulk of the population will live. Entrepreneurial decisions are all important. Despite a good many qualifications, some of which spring from non-economic motivations, business men seek the areas of lowest cost open to them. Certain places enjoy marked natural advantages. The competition for sites in these places causes rents to rise. Activities which cannot derive sufficient advantages from locations in the most favored areas are forced to seek sites on their peripheries or in secondary areas where lower rents (and land values) offset the somewhat higher assembly and distribution costs. Sometimes the result is to break up and

29. Though the transportation industry is itself dispersed, some of its branches have been responsible for concentration in other fields. This is particularly true of water and rail transportation. The truck and the airplane may have the opposite effect.

redistribute among different centers the bundle of functions which constitute a single industry. The managerial function may be kept in the very heart of the highest rent center, while the processing function moves closer to the resource base, and the storaging and warehousing function is relocated in better relationship to the ultimate consumers of the product. Long distance transmission of power, the telephone, good roads, the automobile, and the airplane make it technically possible today to manage a large enterprise without bringing all the operations under one roof. While these innovations work both ways, their long-run influence may well reinforce the operation of rent as a decentralizing force. An important function of rent and land values is to prevent cities from growing beyond their optimum size, from the point of view of economic efficiency.[30]

The effect of rents on wages reinforces this decentralizing influence. Just as rent is a cost to the individual enterpriser, so too it enters into the cost of living of his employees. In the central city it is necessary to pay a higher money wage, skill for skill, in order to provide a real wage equivalent to that in a smaller center. The effort of government or trade unions to impose an equal money wage throughout the market area represents an effort to obstruct decentralization. More than that, it prevents consumers from securing goods as cheaply as would be possible otherwise. The residents of the overgrown city pay in increased congestion and in unsatisfactory living conditions. Rural areas pay in the absence of a potential urban growth that might contribute to agricultural diversification and relief of rural population pressure.

Despite the increasing difficulties of bigness, articulate urban elements—merchants, bankers, professional groups, chambers of commerce, etc.—are all for further growth. Real property owners especially are interested in growth trends. The soundness of their investments depends, to a considerable extent, on continued growth, since present land values always incorporate future prospects and

30. See Robert Murray Haig, "Toward an Understanding of the Metropolis" in *The Quarterly Journal of Economics*, Vol. XL (Feb. and May, 1926).

these in turn are usually a reflection of past trends. Meantime, as a city grows, its business sections must expand into neighboring residential areas, if growth is not to be prematurely halted. This expansion throws its speculative shadow over a wide area despite the fact that many years must elapse before the entire area will be needed in the new use. Land sales and tax assessments reflect these anticipations. Under the pressure of rising taxes many resident home owners are induced to sell and move further out. The neighborhood deteriorates and falls into the hands of absentee speculative owners. Naturally they attempt to get as much from existing structures as the city ordinances permit, pending the time when it will pay to put up stores, office buildings, or plants. The property tax, based on future prospects, increases the pressure on them to overcrowd their properties. Single-family homes are converted into multiple-family dwellings, boarding houses or tenements, for which they are ill adapted. In a relatively short time a decent residential district, with structures having years of useful life ahead, degenerates into a slum—a breeding place of disease, juvenile delinquency, and crime. This situation imposes special costs in the way of health and hospital services, police and fire protection, and high educational outlays.

The situation also gives rise to a demand for public slum clearance projects. Certainly the conditions are intolerable and must be corrected. Before endorsing the present Federal program, however, it may be worth while asking ourselves whether this sequence represents an inevitable phase of urban growth. Is it not due, rather, to the fact that public opinion tolerates an anti-social use of the properties? The costs of disease, crime, and delinquency are properly chargeable to this use. If they were assessed back to the property owners such overcrowding would not pay. It could be prevented through the use of the police power. This would keep down land values and permit of a reasonable return for a socially desirable use of the land.

The American has not the dislike for moving that characterizes the French, for example. He wants to live according to the con-

ventions of his group. Let a neighborhood become unfashionable and he is quick to move. Also he is fascinated with gadgets. He wants the latest thing in his house as in his automobile. Rapid advances in house layout, construction, and internal equipment, levy a heavy obsolescence toll on the structures designed for the well-to-do. These structures can and should constitute an important part of the supply of homes for the lower income groups in a growing city. With a relatively small expenditure a substantial middle-class home can be converted into a socially acceptable multiple-family dwelling, providing the degree of congestion and the nature of the internal reconstruction are rigidly prescribed. If we did this, low income groups could look to reconditioned second-hand houses for shelter just as they look now to second-hand automobiles for transportation. The well-to-do bring automobiles within the reach of the broad masses by absorbing the heavy first depreciation. The same mechanism should be relied upon to help provide decent housing for many of these same people.

Unfortunately we have tolerated such shoddy subdividing and shoddy building in the past that this normal source of supply is not always available. We have created our slums by faulty social controls. Now we are attempting to correct the resulting evils by spending enormous sums to buy out the anti-social land values permitted by our negligence and to house at less than cost the victims of our neglect. Some subsidization is doubtless the penalty we must pay for this negligence. A more flexible and coordinated taxing and zoning policy could prevent the continuance of past abuses and the emergence of anti-social land values that magnify the costs of slum clearance.

Granted the necessity of publicly financed slum clearance, how large a subsidy is socially defensible? If we accept the present urbanization pattern the answer is clear. The subsidy must be large enough to provide decent housing to the very low income group at a price they can afford to pay. This appears to be the reasoning underlying the USHA venture. How costly the venture will be will depend upon the standard of decency that public opinion is pre-

pared to support. If the local taxpayers believe that the bulk of the cost will not come out of their purses, the standard will tend to be higher than if they had to foot the bill. Since this is the popular belief, we can be sure that the costs will be substantial. The full magnitude of the costs will not emerge, however, from the published figures. Not because of any overt and intentional deception, but because they will be due to and concealed in the warping effect of the program on the national urbanization pattern. They constitute the indirect costs of the program. In the long run they may be larger than the direct costs, because of their effect upon the national income.

Our misgivings regarding the present program arise from the fact that it is directed too much at symptoms, too little at underlying causes. It overlooks the fact that the inability of low income groups in our cities to pay for socially tolerable housing is due in part to the presence within these cities of businesses which are unable to pay adequate wages because they do not derive sufficient advantages from present locations to overcome the costs associated with these locations. Such enterprises would be better off if they were in smaller centers where advantages and costs were more nearly in equilibrium.

If it were not for the suffering of the transition period, the really constructive solution would be to correct the errors of the past by a resolute use of the police power. We might then expect some such development as this: Immediately the regulations against overcrowding would cause landlords to demand higher rents from the families remaining in the old houses. The latter would resist rent increases and demand wage advances. Ultimately the cost incidence of the regulations would tend to be divided between landlords, tenants, and employers. Marginal employers would tend to be forced out of the city and renters would seek homes on the periphery of the city or would follow departing industries. Land values in the old centers of congestion would fall still further, thus facilitating the task of slum clearance. Smaller cities would benefit at the expense of larger ones.

The risk of losing population was in part responsible for municipal tolerance of slums. It is now behind the movement for state and Federal subsidies. These extra-municipal subsidies represent the real threat of population maladjustment. If the subsidies came entirely from the cities themselves their dislocational effect could not be very large. A generous subsidy would be associated with high local taxes. The latter would constitute a rough equivalent to the higher wages that would otherwise prevail. The growing tax burden would exercise the decentralizing influence that the housing subsidy tended to block. Within reason, municipal subsidies would be offset by the effects of better housing on health, crime, and other factors entering into municipal costs. Finally, local financing would tend to keep housing subsidies within defensible limits.

Our objectons, in short, are not directed against public housing as such, but against the principle of Federal subsidy. We recognize that, in many local situations, derelict slum areas can be rehabilitated only by a public agency armed with condemnation powers. A private developer rarely can assemble a large plot in the heart of a great city. The municipality can do this assembly job and can also demonstrate, as many of our public housing projects have, new housing combinations that are better than anything that private enterprise has yet been able to offer to low-income families. This educational aspect of the present Federal housing program deserves the cordial endorsement of all those who are disturbed by the living conditions of the underprivileged in our cities.

We believe, however, that the direct financial contribution of the Federal Government should be small. We should like to see the bulk of its assistance take the form of repayable credit advances and technical advice. We should further like to see even this assistance made conditional on a more energetic local use of city planning and of the police power and on substantial relaxation of restrictive practices on the part of the building crafts and the suppliers of building materials. We recognize, however, that in periods of serious unemployment a strong case can be made for public housing projects as part of a business cycle control program. This

might justify a flexible subsidy adjusted to an employment index and varying from little or nothing in periods of rising business activity, to a substantial figure in periods of stagnation. The large secondary effects of building activity in the latter period might more than offset the possible wastages resulting from the mislocation of capital. The validity of the present USHA program would be greatly strengthened if it could be made part of a long-range Federal public works program designed to mitigate the severity of the business cycle. As the plan is now operating there is danger that it will not only obstruct a desirable decentralization of population but that it will also increase the severity of business fluctuations.

Chapter IX

FEDERAL AID

THE diversification goal proposed for the Southern Region calls for large adjustments. These should be brought about as far as possible by the removal of artificial barriers to factor mobility, i.e., by the effective operation of the market mechanism, and by appropriate use of the police power. The disadvantages under which the South suffers are too serious, however, to warrant exclusive reliance on these two mechanisms. Positive assistance, through public expenditures at both the state and the Federal levels, is needed. In this chapter we are concerned with the case for differential Federal aid for the Southern Region.

Financial Assistance. As long as Federal expenditures greatly exceed Federal revenues, low income states will gain on balance from Federal funds spent within their jurisdictions almost regardless of the purposes for which the money is spent. But this will not necessarily be true once the Federal government begins to operate on a balanced budget. The outcome will then depend upon the character of the Federal fiscal system—upon the method of raising revenues and the nature of Federal disbursements.

The South may at least expect that Federal fiscal policy shall not discriminate against low income states. Only through a conscious effort, however, can discrimination be prevented. This is because a substantial portion of Federal expenditures will necessarily flow to high income areas. National defense, the maintenance of the elaborate plant and vast bureaucracy at Washington, the servicing and reduction of the public debt will constitute heavy fixed

charges on the Federal budget. Every state will benefit from these services and from the maintenance of the public credit but some will benefit more than others. This is due to the fact that the place where the money is actually disbursed is not a matter of indifference. The servicing and amortization of the public debt will channel funds into the wealthier states, where the bulk of the debt will be held. Amortization disbursements, and, to a lesser extent, interest will be treated as capital by their recipients. When reinvested they constitute a demand for labor. Unless those who control them appraise investment opportunities accurately throughout the nation, there will be a tendency to reinvest them close at home—i.e., in the industrialized regions. The expense of maintaining the Federal Government in Washington also constitutes a direct demand for labor. Relatively unskilled labor tends to be recruited from nearby areas. The more skilled and technical positions will be increasingly filled by competitive civil service examinations. The quality of the educational systems in the several states affects the prospects of their citizens. Particularly on the latter score the South will be at a disadvantage for some time to come. This is not an argument for a rigid state quota system in Washington. It is merely a recognition of a fact. In general the vast overhead expenditures of the Federal Government tend to pull resources and population to a relatively few locations. On balance the South will be a relative loser in the process.

If this analysis is correct, the Federal system would tend to drain resources from the South even though the Federal tax burden rested on the residents of the several states in strict proportion to their real incomes. This assertion does not imply that the region loses more than it gains as a result of its membership in the Federal Union. It merely means that it gains relatively less of the benefits than the wealthier states and that this relative disadvantage can only be overcome by a conscious effort.

There are two principal ways in which this disadvantage can be overcome: (1) progressive taxation, and (2) equalizing Federal expenditures.

The increased emphasis upon direct taxes represents an enormous shift in Federal policy in favor of deficiency areas. The Federal inheritance and income taxes, personal and corporate, bear down more heavily on the well-to-do than on the poor. Tax changes designed to make the Federal revenue system more progressive are consistent with, while the resort to or the maintenance of regressive indirect taxes are inconsistent with Federal efforts to promote greater regional equalization. This statement has to be qualified of course by the proviso that progression is not carried beyond the limit of tolerance of the system of free enterprise. We shall come back to this question in connection with the discussion of ways and means of financing an equalization program. At this point it is enough to state, without supporting argument, that the limit of tolerance of the free enterprise system makes it doubtful whether the revenue system, taken as a whole, can be made much more than proportional except for brief emergency periods.

Relief from the inevitable drain of supporting the overhead expenses of the Federal Government must come primarily from the expansion of what for brevity's sake may be called Federal "field" expenditures, because they are distributed widely throughout the country. They diffuse rather than concentrate employment opportunities. Federal disbursements for roads, for agricultural education, for forest fire protection, for pensions to the aged and otherwise disabled, and direct expenditures on normal public works and relief projects, on tenancy reform and soil conservation, are all examples of "field" expenditures. Such expenditures exercise an equalizing influence only if they turn back more funds to the poorer states than are drawn from them.

The case for equalization will be developed around the following set of questions:

(1) Has the South any claim in equity for differential aid?
(2) Can the nation as a whole afford the luxury of satisfying these claims?
(3) Is it politically realistic to propose such a policy?
(4) If so, what local services should be singled out for differential Federal aid, and what ones should continue to be exposed to the acid test of willingness of local beneficiaries to pay the costs?

(5) What form should Federal assistance take? Should the Federal government take over these local functions or should it assist financially, leaving the administration in local hands?
(6) Where financial assistance appears to be preferable to the transfer of functions, (a) how should it be given, (b) what conditions should be attached, (c) what tests can be suggested for determining the amount of the assistance?
(7) Can Federal Aid be given in such a way as to promote employment stability? and finally
(8) Should equalization be sought through the enlargement of administrative discretion or should equalization formulas be incorporated into the laws themselves?

(1) *The question of equity*

In our judgment the South has a reasonable claim for differential aid. Federal taxes and Federal expenditures long discriminated against the region. Until the First World War, Federal revenues were largely derived from custom duties and internal excises, which rested with disproportionate severity upon low income groups and hence upon low income areas. The tax system was regressive in a regional sense as well as in the personal sense in which the term is ordinarily used. Similarly, Federal expenditures until recently discriminated against the South. Interest and amortization of the public debt and veterans' pensions—both largely heritages of the Civil War—went almost exclusively to people residing outside the South.

A greater investment in the underprivileged with a view to increasing their ability to compete for the more remunerative economic positions is essential to the satisfactory operation of the system of free private enterprise. Equalization effected in this manner can increase the national income and reduce the poverty of the poor without trenching unduly upon the wellbeing of the rich. In the long run constructive equalization promises to reduce the proportion rather than the absolute incomes of the well-to-do. We do not mean to imply that liberal capitalism permits of no transfer of purchasing power from the upper to the lower income groups. We may reasonably look to the wealthy to take care of those who have permanently lost their employability before acquiring adequate contractual

claims against society for their support. In any event, both types of transfer necessarily redound disproportionately to the people in low income areas.

(2) *The question of ability*

An answer to this question is attempted in the next and last chapter in connection with the larger question of ways and means of financing a Federal Aid program directed at regional equalization. Here it suffices to state our general conclusion—that a constructive program of equalization will enhance the national income and hence create the resources necessary to support the program.

(3) *The question of political realism*

This question can only be dealt with in terms of probabilities. They appear very definitely to favor our thesis. After all there are groups and sub-areas in the wealthier states that would profit from the introduction of an equalization formula into Federal grants just as much as would the poorer states. If we look at the people and not at the states as entities it appears that a majority might easily be rallied to the principle. The strong position of the agricultural states in the United States Senate increases the prospects of success. The increasing application of the principle, in recent years confirms this conclusion. Indeed its political feasibility is so great as to justify serious misgivings regarding the possibility of preventing its abuse. There can be no blinking the fact that an equalization program continued until per capita incomes in all parts of the country reached the same dead level would dry up the sources of capital formation, destroy the basis on which private enterprise rests and reduce the national level of living below that now prevailing in the very poorest areas. An equalization program can only be justified if it is kept within moderate limits and is directed to economically defensible ends.

(4) *The question of objectives*

The goal of Federal Aid should be to assist the people in deficiency

areas to utilize their resources more effectively, or to take advantage of greater opportunities elsewhere whenever there is clear evidence that outside capital cannot develop new opportunities of a self-sustaining nature. In brief an equalization program must be such as to help the people of a deficiency area to help themselves. It must not relieve them of responsibility. In that direction lies bankruptcy. Kept within proper channels it can be defended on national as well as regional grounds.

To be specific, Federal aid should be concentrated upon public programs concerned with the health and the education of the population and with the conservation and improvement of the natural resources. The first two increase the mobility of labor, while the third reduces the need for mobility without reducing the ability of people to move whenever population movements are none the less essential to a satisfactory adjustment. Differential Federal aid to unemployables—the aged, dependent children and the physically handicapped—can safely go as far as the public conscience deems desirable since there is no social need for subjecting them to the dictates of the market. A word of caution, however, is in order. Aid to the needy aged should be kept somewhat below the level eventually available to the aged under the contributory annuity system, lest the latter be discredited. Federally administered or Federally aided public works programs should be used to promote desirable population adjustments rather than for regional equalization purposes.

(5) *Grants vs. Transfer of Functions*

Any redistribution of functions should be on the basis of comparative administrative efficiency. Enough functions, however, should be left to the lower units of government—those in face to face contact with the people—to preserve the vitality of democratic institutions generally. Whatever the ideal pattern may be there is no possibility of assigning revenue sources in such a way as to provide each unit of government with enough for its needs. On the contrary, the principle of distribution according to efficiency is likely

to locate in the smaller units of government many of the most costly functions, while leaving the task of raising the necessary revenues—and this is itself a governmental function—to governments of a higher order. The greater the reliance on progressive taxation the greater becomes the fiscal advantage of the Federal Government. The discrepancy between revenue requirements and revenue resources may well be increased not diminished by a more logical reallocation of functions. A healthy federalism appears to call for regional equalization through the use of Federal aids rather than through the transfer of local functions to the Federal government. The fact that the Federal assumption of a function tends to bring about a nation-wide equalization of wage rates prejudicial to the long run interests of low income areas, strengthens the case for the use of aids.

(6) *Forms of Federal Aid*

The Federal Government can help the states defray the expenses of locally administered services by sharing with them the revenues derived from centrally administered taxes (tax-sharing), or by making money grants from general revenues (grants-in-aid). Both involve a transfer of funds to inferior units of government; both may or may not involve a substantial geographical redistribution of income; both are compatible with varying degrees of control over local functions. Tax-sharing, however, is primarily a device for enabling localities, in proportion to the contribution of the underlying local economies, to share in the greater productivity of specific taxes levied by higher authority. It is a means of tapping more effectively local revenues for local purposes. It is defective, therefore, as an equalization device unless accompanied by an allocation formula which divorces a state's share in the yield from its contribution to the yield. The grant-in-aid differs from tax-sharing in that it protects localities from the fluctuations in the yield of the underlying revenue system. For this reason it is to be preferred. It permits the states to carry on certain selected functions in good times and bad without the necessity of borrowing. It may force the

Federal Government to borrow in periods of cyclical depression. But this is precisely what the central government can and should do in the interests of stability.

Conditions are usually attached to grants-in-aid. They may be administrative or financial or a combination of the two. The former are designed to ensure the effective utilization of Federal funds; the latter are for the purpose of increasing the total resources available for the services involved and of heightening local interest in economy and efficiency. There can be no question regarding the propriety of imposing reasonable administration conditions. Wasteful administration of public funds in the name of local autonomy is inadmissible. The real complications arise in connection with the imposition of financial conditions.

Financial conditions may involve minimum standards of performance or the degree of local participation. Excessively high standards may force low income states to curtail locally supported public services which are even more essential than those enjoying Federal aid. They may also lead to waste when they oblige a state to pay unnecessarily high salaries for administrative personnel. Or they may prove disruptive of balance where they lead to excessive liberality to a selected group of beneficiaries. In brief, administrative conditions should be confined to establishing acceptable standards of efficiency and honesty. The states should be left reasonably free to devise ways and means of making Federal grants do as much work as possible.

At the same time the necessity which low income states are under of keeping financial outlays down should not reduce the amount of Federal aid. This proposition involves the obvious complication of divorcing costs from benefits and this invites loose administration. Some local matching is needed in the interests of sound administration. The usual procedure in this country is to require equal matching. This was unobjectionable in practice as long as the entire Federal aid program remained small. Any state could meet this requirement, if local public opinion really approved. This situation no longer prevails. Between 1926 and 1936, for example, Fed-

eral grants and quasi-grants rose from about four to almost 27 per cent of total Federal expenditures chargeable against ordinary receipts. In 1926 Federal grants represented less than eight per cent of the revenues of State governments. Ten years later they came to 88.5 per cent of state revenues and to just over one-third of the combined tax collections of all state and local governmental units. Low income states are no longer able to take up the full offering. Further adherence to the equal matching requirement promises to have the unintended result of actually hurting the low income states whenever the Federal Government begins to operate on a balanced budget. Mississippi, for example, paid only $9.21 per old age recipient in February, 1942, whereas Connecticut paid $29.16.[1] This meant that Connecticut received 3.2 times as much from the Federal Government under this program. Connecticut may well have contributed somewhat more than 3 times as much to the Federal treasury since its state income (1937) was estimated at almost exactly 3.2 times that of Mississippi.[2] From this point of view the 50:50 matching provision may be said to deal equitably with the two states. But from the point of view of the burden upon Mississippi taxpayers and the benefits to the Mississippi needy aged it is obvious that the situation is unsatisfactory.

This situation appears to call for the introduction of the equalization principle into Federal grants, coupled with reasonable administrative and financial conditions. The former should be limited to the promotion of efficient administration and the latter should take account of differences in needs and abilities.

What tests can be suggested for determining the amount of the assistance and the degree of local participation? There is admittedly a danger that the shift from flat matching to needs and ability will lead to extravagance. Before attempting to answer this question it will be well to see the extent to which this shift has already occurred.

Since 1935 aid to the land grant colleges for research and instruc-

1. Social Security Bulletin, April, 1942. Table 6, p. 31.
2. 1940 World Almanac.

tion has been apportioned on the basis of *rural* population, instead of *total* population.[3] This was particularly beneficial to the populous agricultural states of the South. The health provisions of the Social Security Act definitely invoke need. The Surgeon General, in distributing $8,000,000 annually was authorized to take into account population and special health problems. He used mortality and morbidity rates in working out an allocation formula for part of the grant.[4] The maternal health service grant was apportioned in part according to the number of live births and in part according to maternal mortality rates. A portion of the grant for child health services was divided among the states with infant mortality rates above the lowest quartile, in such fashion that the allotment per live birth increased with the infant mortality rates of the states. A portion of the funds available for these two services (maternal and child health) "was apportioned among the states below the upper quartile of density of population per square mile so that the grant per capita increased as the density of population declined."[5] The differential aid to the Southern Region in these needs tests is obvious.

The Advisory Committee on Education, in recommending a Federal aid program proposed a needs formula based on the number of children of a specified school age in each state, variations in the proportion of children actually in school, the ratio of elementary to secondary school children and sparsity of population.[6] The Wagner Health Bill was shaped particularly to the needs of rural areas.[7]

The Federal program for forest fire protection emphasizes need. It is worth going into this program in some detail, because it illustrates how useless a needs formula is unless accompanied by a capacity to pay formula. At five year intervals the state foresters submit estimates of the cost of protecting eligible state and private lands within their jurisdictions. After checking and acceptance, the

3. V. O. Key, Jr., *The Administration of Federal Grants to States* (Chicago, 1937), pp. 322-3.
4. *Ibid.*, p. 332.
5. *Ibid.*, pp. 333-4.
6. *The Report of the Advisory Committee on Education.* U. S. Government Printing Office. 1938.
7. S. 1620. 76th Cong. 1 sess.

United States Forest Service distributes about two-thirds of the Federal grant on the basis of these estimates. Each state receives a certain percentage of its estimated cost but not more than the state appropriation for fire protection. In other words there is 50:50 matching on the basis of need for the bulk of the grant. The balance is then divided among the states which are able and willing to continue matching with the Federal Government.

Not a single state in the Southeast secured as much as 10 per cent of its basic requirements from the Federal government. The median percentage for the region was 8.5 as compared with 13.3 for the other states participating in the program. The table on page 215 shows the 1942 situation for four states:

It would appear from this examination of Federal Aid programs that reasonably objective and politically feasible measures of need for certain services can be drawn up by specialists, and that ability to pay must also be taken into consideration before a Federal Aid program can be expected to provide differential assistance to the South. Kentucky's need, for example, exceeded that of Massachusetts by almost 40 per cent, yet it received 40 per cent less because of the equal matching requirement.

(7) *The question of stabilization*

Before discussing the problem of an acceptable needs-ability formula something needs to be said about the seventh issue in the list of questions on page 207 above. Can Federal Aid be given in such a way as to promote employment stability? The conclusion reached earlier was that liberal planning calls for deliberate over-spending in depression periods providing this over-spending is directed to the correction of structural maladjustments. Later, in discussing social security in the South, it was argued that, in so far as public works are used as a stabilization device, the public wage scale should be kept somewhat below locally prevailing wage scales in private enterprise lest they force a further contraction of activity in the private segment of the economy.

State administration of "relief" works programs appears more

TABLE IV.

FEDERAL ALLOTMENTS TO SELECTED[8] STATES FOR FOREST FIRE COOPERATION, 1942[9]

	Estimated Cost to Protect State and Private Forest Lands (1939)	*REGULAR Federal Allotments 7% of Cost of Protection*	*Basis for Determining Extra Fed. Allotments*			*Total Regular and Extra Federal Allotments*
			State and Private Expenditures for Prevention C.Y. 1940	*Excess of State and Private Expenditures for Prevention over Regular Federal Allotment*	*EXTRA Federal Allotments 20.74% of (4)*	
	(1)	(2)	(3)	(4)	(5)	(6)
Massachusetts	$ 209,000	$ 14,630	$ 99,223	$ 84,593	$ 20,798	$ 35,428
Colorado	65,000	4,550	7,255	2,705	561	5,111
Idaho	411,000	28,770	126,494	97,724	25,460	54,230
Kentucky	292,000	20,440	12,430	.....	.....	20,440
All other participating states	17,675,600	1,235,432	5,573,047	4,349,446	813,395	115,209
Totals	$18,652,600	$1,303,822	$5,818,449	$4,534,468	$860,214	$2,164,036

8. See page below for the reason for selecting these states.

9. From Release dated July 8, 1941, prepared by Division of State Cooperation, U. S. Forest Service, Washington.

likely to observe this principle than programs financed and administered from Washington. Hence for economic as well as for political reasons, local administration is desirable. In a serious depression, however, even the normal public works activities of states and their subdivisions are cut down. In every year between 1930 and 1935, for example, total public construction expenditures declined due to the sharp curtailment of local expenditures. And even in 1940, when Federally financed construction was up seven fold, the total was up by less than 25 per cent.

The absolute increase was only $644 millions. Obviously an expansion of these modest proportions was powerless to reverse the contraction forces operating within the American economy. To overcome this perverse elasticity of locally financed public works the National Resources Planning Board and the Federal Works Agency are encouraging the states and their political subdivisions to maintain fully matured shelves of projects ready to be launched at the onset of depression. These shelves will not be cleared, however, unless the Federal Government stands ready to aid financially. If it should undertake to share the costs of approved works projects and should really refuse to cooperate with states and municipalities which do not possess matured plans, there may yet be a harmonious rise and fall in public works expenditures according to a Washington-determined time table. Can a Federal Aid formula be devised to encompass stabilization as well as equalization?

Suggestions for a Revised Federal Aid Formula

Serious regional inequalities and cyclical instabilities call for reconsideration of the procedures which have been developing more or less haphazardly over the last two decades. In this section a formula will be developed which rests on the assumption that the Federal Government has a four-fold responsibility toward the states that may be expressed as (1) revenue-sharing, (2) stimulation, (3) equalization, and (4) stabilization.

Revenue-sharing.—The grant-in-aid is an expression of this principle. The superiority of this devise over tax-sharing was discussed

a few pages earlier. For grants to be effective, however, a reallocation of revenue measures between the Federal and the state governments is a prerequisite. This issue will be treated in the next chapter. Assuming an adequate transfer of revenue sources to the Federal Government, it would be quite appropriate for the latter to support to a limited extent and without any conditions such local services as are affected with a national interest. The criteria for identifying these services have already been discussed.[10] Apportionment should be on the basis of functional need. Reasonably objective measurements of need have been developed for certain existing programs. It is assumed that satisfactory ones can be devised for others. Equalization should be absent or incidental to the needs formula. No matching would be required. This part of the grant is intended to permit the states to share in the increased productivity of certain Federally administered taxes. It would be a quid pro quo rendered in return for the abandonment of certain tax fields by the states. A state's quota would depend on the magnitude of the need relative to the needs of all the participating states. An allocation formula of this sort will hereafter be referred to as neutral.

Stimulation.—This term is used to indicate the national interest in the further development of these same local services. The quotas of the states would be exactly the same as for the revenue-sharing part of the grant. Local matching, however, should be required but according to a variable formula which would not prevent low income states from securing their full quotas. This result can be accomplished by making a state's matching ratio vary inversely with its tax-paying ability as measured by per capita income. For administrative reasons it would presumably be desirable to group the states into a limited number of fiscal capacity classes.

Equalization.—A third part of each grant should be reserved for distribution to low income states. This part of the grant should recognize relative fiscal capacity and relative functional need. There should be no matching requirement but a maximum of administrative control. The degree of exclusion is a political matter. Pre-

10. See page 209 above.

sumably it would have to be small to make the policy acceptable.

Stabilization.—The introduction of a cycle variability factor into the stimulation grant, in so far as the funds are to be spent for construction or other postponable purposes, might prove feasible. The purpose would be to provide the states with an inducement to plan their construction work well in advance and to time it according to directions from Washington. The matching ratios for construction work might be made to vary by 50 per cent upward and downward according to the phase of the cycle as determined by a competent independent Board, or by the Fiscal Advisory Committee suggested by Professor Leland.[11] Any part of a State's unexpended quota might remain available over a limited number of years, say three, for additional matching. This would increase the incentive for accumulating credits during periods of active business and drawing upon them in periods of depression.

Illustrations based upon the Federal forest fire protection program under section 2 of the Clark-McNary Law will help make clear how the program would work. They will show the extent to which the introduction of the concepts of fiscal capacity and cyclical stabilization would modify the regional and timing aspects of this program. The figures for net per capita income by states provided annually by the Bureau of Foreign and Domestic Commerce of the Department of Commerce are used to measure relative fiscal capacity. A state's capacity is assumed to vary inversely with the average per capita income.[12] Per capita income is probably as accurate as political realities warrant. In the end the politicians will and should have the last word. An acceptable formula will re-

11. In a study made for the National Resources Planning Board entitled *Division of Costs and Responsibility for Public Works,* Professor Simeon E. Leland of the University of Chicago recommended the establishment of a Fiscal Advisory Committee composed of the President, the Secretary of the Treasury, the Director of the Budget, the Chairman of the NRPB and the Chairman of the Board of Governors of the Federal Reserve System, and charged with the coordination of fiscal policy, public works financing and timing, and monetary and credit policy.

12. The United States Health Service used the well known Brookings Institute figures in determining what states should receive nonmatching grants for equalization purposes from the eight million dollars appropriated for public health work under the Social Security Act.

flect their judgment and not the findings of even the most perfect index of fiscal capacity.

In the illustrations which follow it is assumed that the states are ranked according to officially determined and frequently revised per capita income figures and grouped into four classes. In Class I fall the twelve states with highest per capita incomes, in Class IV the twelve with the lowest per capita incomes, with the remaining twenty-four divided evenly between Classes II and III. To simplify the discussion one state in each class is shown in the accompanying table. In general it is the sixth in its class on the basis of per capita income. For Class III, however, Idaho, fourth in rank in its class was chosen, because the states with fifth, sixth and seventh ranking did not participate in the Federal forest fire protection program. In addition to its per capita income (1939) certain other values are shown which are explained in the paragraphs immediately following the table.

TABLE

1939 Income Payments by States with Derivative Calculations for Determining Federal Grant-in-Aid

(1) *STATES ranked According to Per Capita Income*	(2) *State Per Capita Incomes— 1939*	(3) *State Revenue Sharing Ratios* %	(4) *Basic Equalization Ratios of Eligible States*	(5) *Correction Factors Applicable to Class II and Class IV States*
Class I				
Massachusetts	$705	1.12		
Class II				
Colorado ..	522	.35	.43	18.11
Class III				
Idaho	453	2.20	2.73	
Class IV				
Kentucky ..	300	1.56	1.94	4.31

The recommended allocations to these states are based on the following assumptions:

1) that 40 per cent of the grant is designated "revenue-sharing" and hence apportioned among all the states without matching and according to relative functional need. A state's quota, or "revenue-sharing index" is the ratio of its estimated costs as shown in the table on page 215 above to the total estimated cost

of eligible states. To obtain a state's quota, its "revenue-sharing ratio" is applied to the amount available for distribution under this part of the grant. For the fiscal year 1942 $2,164,036 was distributed among the states for forest fire protection. The revenue-sharing allotment is 40 per cent of this sum or $865,614.40. Massachusetts' quota is 1.12 per cent of this amount or, in round numbers, $9,542.

2) that another 30 per cent ($649,211) is designated "for stimulation purposes" and distributed among the states according to the same formula. In this particular program each state would thus receive three-quarters as much for "stimulation purposes" providing it was prepared to match. Unlike the existing system, however, the matching requirement for each state would depend upon its "fiscal-capacity" rating. It is assumed here that the states in Class I will be required to match dollar for dollar (1:1); those in Class II one dollar to two dollars Federal (1:2); those in Class III one to three (1:3); while the states in Class IV will only be required to put up one dollar to four dollars Federal in order to secure their quotas (1:4).
3) that the remainder of the grant ($649,211) is divided exclusively among the states falling below the first quartile, on the basis of need and fiscal capacity. To determine the quotas of eligible states three calculations are required. First their needs relative to the total needs of the eligible states are calculated. These "basic equalization ratios" appear in column 4 of the preceding table. Kentucky's basic quota, for example, is 1.94 per cent of the $649,211 reserved for equalization purposes or $12,595. Next the median per capita incomes of Class II and Class III states as groups are calculated. The states falling in Class III are then assigned their quotas as determined by the first calculation. The quotas of Class II states, however, are arbitrarily reduced by the percentage by which the average per capita income of Class II states exceeds that of the Class III states. This percentage (18.11) or "correction factor" is shown in column 5 of table V. It is the same for all Class II states. These arbitrary reductions

are then cumulated and added to the balance available to the states falling in Class IV and divided among them on the basis of their relative needs. The "correction factor" for Kentucky is also shown in column 5 of table V. In our illustration the needs of the Class IV states total up to $6,761,000. This is increased by the $39,704.11 arbitrarily withheld from the Class II states. Since Kentucky's need amounts to 4.31 per cent of the needs of the Class IV states her share of the equalization grant is $14,306.

The operation of the formula is shown in the following table, for the four states which have been used throughout this illustration. For purposes of comparison the results of the actual allocation formula as shown in Table IV are reproduced in column 8. The next two columns show the percentage of Federal aid to estimated cost of protecting state and private forest lands under the existing and the proposed formulas.

The effects of this equalization formula are obvious. For Massachusetts (Class I) the ratio of Federal aid to estimated cost of an adequate program would fall from 17 to 8 per cent, for Colorado (Class II) it would rise from 7.8 to 11.7 per cent; for Idaho the change would be insignificant while Kentucky's ratio would go up from 7 to 13 per cent. The Southeast as a whole would receive half again as much as under the existing formula, bringing the Federal contribution up from 8.4 to 12.9 per cent of the region's estimated need. The Northeast and the Far West would have to take the largest cuts, as is inevitable under an equalization formula. On the basis of needs the spread between the regions would be greatly narrowed. Under the existing formula there is a spread of almost 9 per cent —from 8 per cent for the Southwest to 16.9 per cent for the Far West. Under the proposed formula the spread is narrowed, from 9.5 per cent for the Far West to 12.9 per cent for the Southeast, a difference of 3.4 per cent.

The effect of introducing a cycle variability factor into the matching ratio is illustrated in table VII on page 224 below. Again the

TABLE VI.

FEDERAL ALLOTMENTS TO STATES FOR FOREST FIRE PROTECTION UNDER EXISTING AND PROPOSED FEDERAL AID FORMULAS

(1) States	(2) Fiscal Capacity Matching Ratios	(3) Unconditional Revenue Sharing Allotments	(4) Conditional Stimulation Allotments	(5) State Matching Appropriations to Secure Stimulation Allotments	(6) Equalization Allotments	(7) Total Possible Federal Allotments under Proposed Formula	(8) Total Allotments under Existing Formula	(9) Ratio Federal Allocation to Estimated Cost under Existing Formula	(10) Ratio Federal Allocation to Estimated Cost under Proposed Formula
Southeast									
Kentucky	1:4	$13,504	$10,128	$ 2,532	$14,306	$37,938	$20,440	7.0	13.0
Northeast									
Massachusetts	1:1	9,542	7,271	7,271		16,813	35,428	17.0	8.0
Northwest									
Idaho	1:3	19,044	14,283	4,761	17,723	51,050	54,230	13.2	12.4
Colorado	1:2	3,030	2,272	1,136	2,286	7,588	5,111	7.8	11.7

Federal forest fire protection program is used. It is assumed that the Federal Government has appropriated $15,000,000 available over a five year period for the promotion of approved long-run forestry goals under state administration. The figures at the basis of the existing program are taken as the monetary expression of these long-run goals. The grant under consideration is to provide funds over and above the normal and recurring needs of state programs. It is earmarked for the support of specified activities of a postponable nature which can be put into operation in periods of business recession. One-fifth of the grant is available each year. Unexpended balances may be accumulated as a Federal credit up to a maximum of three times a state's normal quota. The allocation among the states is in accordance with the "stimulation" formula—i.e. relative need determines the quota and fiscal capacity class determines the matching requirement. The latter, however, may be raised or lowered by 50 per cent upon the order of an appropriate Federal Agency. The hypothetical figures in the table depict the way in which this part of the program might work out over a five year period in Massachusetts, a Class I state with a normal 1:1 matching ratio, and in Kentucky, a Class IV state with a 1:4 ratio, on the assumption that active business conditions prevailed during the first two years and slack times characterized the last two years. The plus, minus and zero signs in column 2 of the table indicate the state of business and hence the applicable matching ratio.

The needs formula allocates to Kentucky $234,000 for long range improvements. If the same matching requirements were imposed here as under the stimulation part of the regular program the state would have to appropriate one dollar to secure four dollars Federal or a total of $58,500. The actual appropriation was $34,850. By taking advantage of the cycle flexible matching offer the state saved $23,650 or about 40 per cent. The corresponding saving for Massachusetts was $32,750, or about 35 per cent. This saving has not changed in any way the allocation of the grant among the states; it has simply provided an inducement for them to dove-tail state programs into the national stabilization program.

TABLE

FEDERAL GRANTS TO MASSACHUSETTS AND KENTUCKY OVER A FIVE-YEAR PERIOD FOR FOREST FIRE PROTECTION UNDER SUGGESTED CYCLE-STABILIZATION ALLOTMENT FORMULA

Year	Cycle Character	Effective Matching Ratio State: Federal		State Quotas		State Appropriations		Federal Grant		Cumulative Credits Available for Later Matching		Total Expenditures	
		Mass.		Mass. (1.12% of $3 million)	Ky. (1.56% of $3 million)	Mass.	Ky.	Mass.	Ky.	Mass.	Ky.	Mass.	Ky.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	+	3:2	3:8	33,600	46,800	12,000	3,000	8,000	8,000	25,600	38,800	20,000	11,000
2	+	3:2	3:8	33,600	46,800	9,000	2,400	6,000	6,400	50,200	79,200	15,000	8,800
3	0	2:2	2:8	33,600	46,800	20,000	4,000	20,000	16,000	63,800	110,000	40,000	20,000
4	−	1:2	1:8	33,600	46,800	22,500	8,000	45,000	64,000	52,400	92,800	78,100	72,000
5	−	1:2	1:8	33,600		44,500	17,450	89,000	139,600			133,500	157,050
			Totals	168,000	234,000	108,000	344,850	168,000	234,000			286,600	268,850

Instead of spending the same amount each year on this long range program regardless of the state of business, total expenditures in Massachusetts varied from a low of $15,000 to a high of 133,500. The more generous matching ratio accorded Kentucky resulted in an even greater relative spread between high and low disbursements.

If such results could be counted upon in connection with all regular Federal aid programs a substantial counter-cyclical influence would be introduced into normal public expenditures without the necessity of launching improvised programs of dubious usefulness, and, equally important, without the necessity of expanding Federal administration at the expense of local administration.

(8) *The question of administrative discretion.*

Some degree of administrative discretion is now to be found in the following Federal aid programs: Unemployment Compensation Administration (1935); Conservation of Agricultural Land Resources (1936); Forest Fire Protection (1911); Distribution of Forest Planting Stock (1924); Maternal-and-Child-Health (1935); Crippled Children (1935); Public Health (1935). It is a venerable tradition. The Clark-McNary Law (1924) for example appropriates $2,500,000 for the purposes of sections 1, 2 and 3 of the Act, namely to cooperate with state officials in working out suitable systems of forest fire protection (section 1); to cooperate with appropriate state officials in the execution of these programs by financial aids "under such conditions as he (i.e. the Secretary of Agriculture) may determine to be fair and equitable" providing the Federal aid does not exceed the amount expended by the state; and to promote certain investigations (section 3). For this last purpose the Secretary is authorized to "expend such portions of the appropriations authorized herein as he deems advisable." Section 4 of the Act authorizes the Secretary to expend not more than $100,000 annually in cooperation "with the various states in the procurement, production and distribution of forest tree seeds and plants, for the purpose of establishing windbreaks, shelter belts and farm wood lots . . . . under such conditions and requirements as he may prescribe" sub-

ject as before to the equal matching requirement. The Federally administered relief expenditures which are here treated as quasi-grants-in-aid represent the culmination of this movement. Emergency conditions and the impossible financial situation of most of the states rendered this solution of the relief problem inevitable. It is questionable, however, whether so large a degree of discretion can wisely be made a permanent feature of a permanent Federal aid program. The absence of clearly defined apportionment formulae exposes an administration to charges of political favoritism. Purity of motive and honesty in execution are no protection against corroding suspicion. The risks of abuse of administrative discretion in the hands of a corrupt national administration are so serious as to raise legitimate doubts regarding its compatibility with our Federal form of government. The formula developed here is based on the assumption that administrative discretion will be kept to a minimum. While Federal administrative agencies, with the help of local officials and outside consultants would be responsible for working out the capacity and performance ratings, the ratings themselves should be incorporated into the several Federal aid acts with such modifications as the Congress deems desirable.

Such a solution admittedly sacrifices some very real advantages that are obtainable under a regime of administrative discretion. If these advantages are regarded as important enough to warrant continuation of the practice, it would appear desirable to introduce into our administrative machinery a new mechanism, namely, an independent *Advisory Economic Commission* with a really first rate and liberally financed research and statistical bureau and with ample funds for drawing in outside consultants, as a safeguard against the unconscious bias which tends to accompany civil service status.

If such an organization was established, Congress should henceforth exclude all regional equalization or other differential elements from its various grant-in-aid programs. In their stead it should appropriate a lump sum for allocation under some general formula regarding fiscal capacity and functional need. The act should spec-

ify the purposes for which the money was available and perhaps fix, within flexible limits, the amounts available for the several purposes, and the maximum amount which any one state might receive. It would then be up to the Federal agencies concerned, in cooperation with state agencies, or at the instigation of these agencies, to work out plans for differential assistance to the more necessitous states. These plans would have to be submitted to the Economic Commission for an advisory opinion. If the opinion on a given program were unfavorable, the direct written approval of the President might be required to make the administrative decision effective. If the President upheld the Commission, the formula would have to be reworked to take account of the underlying economic analysis.

The Commission's terms of reference should require it to examine proposals with a view to determining whether they promised to promote or retard desirable adjustments of population to resources. Its instructions should be to build up not level down. Its task would be essentially one of statesmanship. It would be dealing with the issues on which peace and war hinge in other areas of comparable extent and diversity of resources and standards. Such a commission might also be required to give advance advisory opinions regarding the probable regional and national incidence of proposed legislation. It should be authorized to submit to Congress similar opinions on existing legislation. In this way Congress and the Administration would in time be in a position to get an over-all picture of what is going on.

The National Resources Planning Board represents such a Commission in embryo. Its membership, however, should be increased placed on a full time basis and removed from the Executive Office of the President. Tenure and salary scale should be the same as that of the Supreme Court. Its work would strengthen and clarify the position of that great tribunal. The latter has frequently occupied an untenable position. Realizing that its task is one of statesmanship and not the mere construing of the vague phrases of the Constitution, it has sometimes felt compelled to make its own

economic analyses of laws and commission rulings and then to clothe these adverse economic judgments in the venerable language of the law. Unfortunately the members of the Court are ill fitted by training or experience for this task. The present New Deal Court appears to have recognized its incompetence and to have accepted the idea that the Congress has a perfect right, within very wide limits, to perpetrate almost any economic folly. In our judgment the present attitude of the Court is correct, despite the fact that it leaves us dangerously exposed to demagoguery. The Commission here suggested would reduce but not remove the danger. It is not proposed to give it the power of veto, but merely the right and the duty to submit proposed measures to impartial and competent economic analysis. Its findings, in summary form, should be submitted in popular language and given the widest possible publicity. If the Congress and the President refused to be guided thereby, we should at least have the satisfaction of knowing that our national decisions were being made with full knowledge of their economic implications. Liberalism cannot be saved by tying the hands of the lawmaking and the executive branches. It is a regime which is based on faith in the essential decency of an informed electorate.

Chapter X

FINANCING FEDERAL AID

IN preceding chapters it has been argued that the American economy is seriously out of balance as evidenced by large disparities in rewards prevailing in different occupations and in different parts of the country. Low rewards are concentrated in the extractive industries—notably agriculture—and in unskilled and unspecialized activities generally. Public policy should aim at the reduction of these inequalities. It should be directed, however, to facilitating the transfer of labor and capital from areas of lower to areas of high productivity rather than to transferring purchasing power from higher to lower income groups. These undesirable inequalities are regional as well as occupational. Hence their correction will involve regional as well as occupational shifts. Since labor is less mobile than capital, public policy should give preference to measures designed to promote a wider diffusion of capital rather than to measures directed to promoting massive population movements. This preference is not a denial of the importance of occupational mobility. Both are necessary, but the latter can be more effectively accomplished if alternative occupations are more widely diffused and hence physically closer to populations caught in low productivity occupations. Nor does it constitute a denial of the advantages of territorial specialization on the basis of differences in climatic and natural resource endowment. Nor does it imply that all men possess equal abilities. It rests on the assumption that the present large occupational differentials are greater than potential differences in capacities warrant, and that the existing territorial specialization within the United States no longer represents the most effective

pattern. Accident and policy, however, have created vested interests which must be considered. This is particularly true of regional interests. Public interventions may, however, within moderate limits, be used to narrow the spread between occupations and regions.

In chapter VIII evidences of lack of neutrality in national controls were submitted. In the immediately following chapter the case for differential Federal aid to populations in low income areas was developed. In this final chapter it is proposed to consider whether the nation can afford to support the type of program recommended in this study and, if so, what changes in the Federal and state fiscal systems may be needed to keep the program as a whole consistent with the requirements of Liberalism.

With the nation involved in a life and death struggle the question of our ability to finance a program of differential assistance to the South in the post-war period naturally assumes exceptional importance. The doubt concealed in the question is due to the idea that modern war must necessarily impoverish a people for a long period of time. In fact, however, the material consequences of war can be overcome with surprising rapidity. This is because most of the material costs are borne by the people during the period of hostilities. The real costs consist primarily in the loss in productive labor power as a result of deaths and permanent disabilities, the destruction or deterioration of working capital, the failure to increase the capital equipment useful for peace time purposes, and the lowered standard and the heightened strain of living during the war. The magnitude of the material costs is reduced by bringing additional workers into the labor force (women and children and retired workers) and the heightened intensity of work under the spur of patriotism. Another, and even more important, offsetting factor is the enormous advance in technology called forth by modern war.[1] An appreciable part of the costs are thus made good dur-

1. "Even as I speak, the pressures of this war are compressing into the space of months developments that might have taken us a half-century to realize if necessity had not forced the pace, ... Already our world of 1940 . . . . is so distant in the past that it has become an antiquity, as seen through scientific eyes." From "Molders

ing the process of the war by increased production and reduced consumption. Society as a whole at the end of the war is poorer than at the beginning only to the extent that its capital equipment has been impaired, its peace time organization dislocated, and a portion of its labor force unfitted for peaceful occupations. The victims of the war, the wounded and the mentally affected, represent one of the continuing costs for which post-war generations must provide. Even this residual cost may be reduced by increased mortality among old people during the war and by the marvelous rehabilitation programs of modern medicine.

So far nothing has been said of the legacy of debt for the good and sufficient reason that it is primarily a measure of past costs. They will be enormous but they will be largely behind us. Domestic debt and the annual interest thereon are not deductions from, they are simply claims by the holders against the national wealth and the national income. Troublesome problems of transfer as between economic groups within society are involved, but nothing more.

Thus the national debt does not spell national bankruptcy. While it will be many times larger than that left by the last war, it will be easier to handle because of the withdrawal of the tax-exemption privilege from the bulk of it. The interest will represent income to the owners and will be liable to the Federal income tax. The principal will be liable to the Federal estate duties. To the extent that it is narrowly held by the wealthy, the real transfer burden will be reduced by the progressive rates of these two taxes. If the national income can be maintained in the post-war period close to the level it will reach at the peak of the war effort, the transfer problem can be handled without insuperable difficulties.

These considerations permit of an optimistic conclusion—on the assumption of course of a United Nations victory and of our ability to finance the war without uncontrolled inflation. The American

of a Better Destiny," an address by Dr. Charles M. A. Stine, Vice President, E. I. du Pont de Nemours & Co. (Inc.). Reprint from *Chemical and Engineering News.* No date given but the address was given in September, 1942.

economy will emerge very powerful and potentially very healthy. We shall have increased considerably the proportion of our population equipped with industrial skills. We shall have drawn off the surpluses which had accumulated in the agrarian segment of the economy as a result of the long depression of the '30s. There will be an enormous backlog of unsatisfied consumer demand coupled with a considerable volume of stored up purchasing power in the hands of consumers, particularly if some sort of compulsory saving scheme is introduced. Business firms will need funds to re-equip themselves to meet these new demands. Our transportation system will have to be put into shape. Arrears in the repair and maintenance of homes and offices will have to be made good. Millions in countries directly ravaged by the war will have to be provided for pending the rehabilitation of their economic structures. American armed forces will have to help police the post-war world. There will be work for all for years to come to make good the physical damages of the war in this country and abroad. The new techniques and the new raw materials of industry developed during the war will inject new competitive possibilities into every branch of economic life. This war has demonstrated the enormous capacity of the American economy when every one goes all out. Finally it is to be hoped that the defeatist idea that there is such a thing as a surplus of productivity and of savings will have been swept aside. In summary there is no reason why in the post-war world, we cannot divide our efforts between the creation of consumer goods and capital goods in such a way as to raise the general standard of living and maintain the national income at its war level. Given faith in the advantage of all-out production in time of peace, the material damages of this war can be made good in a surprisingly short time.

For this goal of all-out production to be realized the fear of a new war must be pushed far enough back to warrant our making long time commitments for the production of the things which peace-loving people want. Abundance of consumer goods requires the dedication of vast resources to the making of specialized ap-

paratus of little use to a nation at war. It involves specialization, considerable interregional and international trade, and a degree of interdependence which is only tolerable in an atmosphere of confidence. It involves the abandonment of the type of total planning which always ends up in autarchy and war. In brief, we can confidently go forward in our quest for the more abundant life if we are prepared to use the powers of the government in the immediately post-war period to restore and revitalize the system of free private enterprise.

On the assumption, then, of a United Nations victory and a constructive peace, it is believed that the type of Federal aid program recommended in the preceding chapter is economically feasible. To the extent that it is directed to the needs of unemployables it involves primarily a shifting of existing costs from charitable shoulders to those of the general taxpayer, and some shifting from fiscally weak to fiscally strong units of government. Only if the scale of support greatly exceeds that which prevailed prior to the socialization of the cost is there a net drain on the nation's resources. If, as was urged, the scale of relief is kept closely related to prevailing local standards of living rather than to some hypothetical national standard, the net drain is not likely to be large. The same thing may be said of present unemployment insurance and the old age and survivors benefits programs. They too represent a more orderly handling of costs that already figure in the national accounts. Public works, soil conservation programs and health insurance represent new fiscal burdens, but, wisely administered they can more than pay for themselves in reduced human and natural resource wastage and in increased human efficiency. All the programs advocated in this study tend to increase and regularize the flow of the national income and hence to create an environment favorable to private enterprise.

This assertion is only true if the method of financing the program is also consistent with the requirement of the system. Insistence upon this point seems necessary in view of a decade of Federal deficits and a new and disturbing confidence in the beneficence of

deficits as such. Deficit financing has been exalted into a new canon of fiscal policy. It is supposed to induce full employment and economic stability. Raiders and reformers invoke the principle with equal enthusiasm. Its popularization has increased appreciably the difficulty of the task of keeping expenditures within the limits set by present political and economic institutions.

The success of deficit financing depends upon wide acceptance of the validity of a theory. The immediate beneficiaries of Government spending are more likely to accept the theory than those who expect to have to repay the debts involved in maintaining consumer purchasing power. Business men will not seek long term capital for plant expansion unless they are convinced that the favorable cost-price relationship provoked by the first impact of the deficit spending will continue long enough to permit them to amortize new capital investments. They have to think in terms of years. What of future labor costs? However sympathetic they may be toward the principle of collective bargaining, they may wonder whether labor has developed leadership commensurate with its new responsibilities and its new power. Will the Government throw its influence as effectively against unreasonable labor leadership as against recalcitrant industrial feudalism? What about future taxes? Where will they be placed? How will they effect industrial costs? What will happen when spending is curtailed and taxes are increased? Similarly, with numerous other issues on which long time commitments hinge. Unless the net effect of this weighing of the pros and cons of a substantially new and strange situation is reassuring, long term capital investment and expansion of the heavy industries will not occur. The fears of business men and investors will bring about the very evils they anticipate.

These misgivings are not to be interpreted as a flat rejection of deficit financing. My own view is that it will work only if the Government's policy as a whole leads the investing and business classes to believe, first, that spending programs, taken individually, will accomplish needed adjustments and will then be stopped, and second, that the favorable price-cost relationships provoked by the

warrant long-time commitments. In view of the newness of the first impact of Government spending, will endure long enough to technique and the well-known difficult of teaching mature men and women new ways of thinking, new rules and regulations aimed at altering price-cost relationships must be introduced very sparingly. Reforms may be long overdue but a choice must be made between recovery and reform. The effective use of the one involves moderate use of the other. Timing here is the very essence of statesmanship.

The shape of burdens to come must be clearly outlined. From the businessman's point of view the deflationary effect of an immediate increase in his taxes is likely to be more than offset by the conviction that, with recovery, the debt, whose growth offends his traditional way of thinking, can be easily handled and that he may look forward to lighter rather than heavier taxes. The business man, and investors generally, must give hostages to the long future. It is better to let them know now the shape of things to come rather than leave it to their imagination and to the dark picturing of those who are anxious to succeed to present positions of power.[2]

Failure to handle the financial problem may well bring the whole experiment into disrepute, or, through the chaos of inflation, leave us with a type of social and political society that we neither contemplated nor desired when we embarked upon the task of providing greater security for the American people.

What changes in the existing Federal-state revenue system will be needed to finance old established functions of Government and the new ones which the Great Depression forced upon our attention, and which will be with us again when the present war is over? If regional equalization is to be included in the new tasks of the Federal Government, it is obvious that the fiscal system as a whole must be progressive. We cannot finance a program designed to help the less privileged individual or the less privileged region by a

2. Advocates of deficit financing as a device for controlling the business cycle should read and ponder the evidence and the conclusions presented by Professor Charles Rist in his *Histoire des Doctrines relative au Credit et a la Monnaie depuis John Law jusque'a nos Jours.* (Paris, 1938.)

system that bears more heavily on the poor than on the rich. Yet progression must not be driven so far as to weaken the propensity to invest, which is just as important as the propensity to save, about which the advocates of public spending complain.

The revenue system, as it has been taking shape over the last twenty years, is not adequate to the purpose in hand. It is needlessly repressive of business enterprise and not sufficiently productive. To be productive it must tap more effectively low income groups and it must deal more gently with the top margin of income of the investing class.

These last two requirements are consistent with the requirement that the fiscal system as a whole must be progressive. The concept of progression is only meaningful when it includes the effects of spending taxes as well as collecting them. A fiscal system can be made more progressive by altering the pattern of expenditures in favor of low income groups just as truly as by increasing the rates applied to the upper brackets of personal incomes. If an altered pattern of spending relieves individuals entirely of costs which they have hitherto borne, there is no objection in principal to requiring them to meet part of these costs via taxes. If the new method of providing the service is more economical than the old method, it may even be possible to impose the whole cost on the beneficiaries and still leave them with larger free incomes than before. The fiscal system thereafter would be more progressive than the earlier one. The task ahead is so vast that its successful accomplishment depends on our willingness to impose a substantial share of the costs on the beneficiaries.

This concept of progression justifies the wide use of payroll deductions as a method of financing the insurable risks of the Social Security program. It also makes it possible to reconcile the argument for progression with that for treating more leniently the top margin of income of the investing classes. Their decisions are determined by their appraisal of the effects of a given investment on their total incomes. If a man of substance must turn back in taxes the best part of the addition to his income resulting from a new investment,

the reward will have to be very large indeed to make it worth his while. A sound economy can hardly offer adequate incentives to investment if the tax structure bears with undue severity on large incomes. Progression appears to have been pushed too far during the Great Depression. While there can be no maximum rate which can be scientifically defended, my own view is that it should not exceed 50 per cent on incomes in excess of say, $500,000, if we are to look to men of wealth to finance risky ventures. They can afford to take the risk and may be expected to do so more economically and more discriminatingly than society can otherwise get the job done, providing the cards are not stacked too heavily against them.

The resulting loss in revenue could be made up in part by a heavier levy against the estates of decedents. Death duties are less repressive of enterprise than income taxes. The active business man and investor tends to discount death duties just as the vigorous younger wage earner is proverbially indifferent to the requirements of his old age. He is largely in the game for the game's sake. Heavy taxation of current earnings reduces his ability to play the game, and also his desire to play it, much more than an equivalent burden imposed upon his estate.

Death duties of course are not neutral in their effect on investment attitudes. The heavier they are the more repressive the effect. All that is claimed is that the effect is less than an equally progressive personal income tax and that it would tend to operate relatively late in a man's career. This adverse effect could be further attenuated by adopting the proposal made almost a generation ago by the Italian scholar, Eugenio Rignano. Rignano suggested that the State should tax very lightly property acquired by an individual during his own life time while taxing with sharply increasing severity each succeeding devolution of property.[3] Thus an individual who had inherited wealth would have a strong incentive to increase it during his own life time as the only means of passing on to his heirs a substantial fortune. The incentive to work, save and invest would remain intact to the

3. Eugenio Rignano, *The Social Significance of the Inheritance Tax* (New York, 1924) (Translation).

very end of his career. The institutions of private property and private enterprise will rest on a much firmer ethical basis if the right of bequest is sharply curtailed. Inheritance of property and equality of opportunity are difficult to reconcile.

The income tax is further defective as regards exemptions, the definition of income, and the treatment of corporate earnings.[4]

Except in war periods the exemption limit had been set so high as to reduce this important fiscal measure to the status of a class tax directed at a dangerously small minority of the American people. The politician used it for vote getting rather than for revenue purposes. The fact that so few paid any direct tax further made it difficult for him to resist pressure groups bent on raiding the public treasury.[5]

The present war has temporarily removed this objection. The exemption limit is now down close to the point set by administrative considerations. With the return of peace there will be a strong popular demand that the limit again be raised. It will not be easy to resist. The pressure would be greatly eased, if, at the termination of the war, payment of income taxes could be coupled with some new service highly prized by low income groups. Compulsory health insurance offers such an opportunity. For low income groups the losses connected with sickness are a constant preoccupation. If the provision of satisfactory medical and hospital care could be guaranteed as a matter of right to those paying a tax on net incomes of up to say $4-$5,000, there is good reason to believe that the administrative problem would prove manageable. It would be necessary to provide a mechanism for monthly or even weekly collections because low income earners are seldom able to make substantial single payments. Properly linked with health insurance

4. The following discussion applies primarily to the pre-Pearl Harbor income tax.
5. There is an important message to students of society concealed in the old limerick:

> There was an old man in a hurse
> Who said "This isn't so worse,
> The ride is immense
> Likewise the expense
> But it doesn't come out of my purse."

benefits, the income tax could reach down to single individuals with cash incomes as low as $300 to $400 a year. Failure to link benefits and tax liability is likely to result in the establishment of an unnecessarily high income tax exemption limit and in a tax structure inadequate to the tasks in hand.

The treatment of capital gains as income has greatly increased the riskiness of investment without adding to the long run productivity of the income tax. With the slowing down of population growth and the disappearance of the opportunity for making fortunes from the growth of land values, it would be advisable, following British income tax practice, to eliminate capital gains entirely in the computation of personal incomes. If public opinion demands some taxation of value increments they should be segregated and subjected to a very moderate special tax rather than levied upon at different rates according to the economic status of the beneficiary.

The failure to include the income from many public securities or publicly guaranteed securities is another defect in the definition of income. This exemption, taken in connection with highly progressive personal income tax rates, has had an unfavorable effect upon investment attitudes. A man of wealth has to find a safe investment yielding a substantial rate of return to provide the equivalent of a tax exempt security. Competitive bidding for such securities reduces but does not remove the incentive. At the same time it reduces the attractiveness of this field for the small investor who is less fitted to take risks. Fortunately the Federal Government has recently cut down on its tax exempt offerings. State and local bonds and a substantial volume of Federally guaranteed bonds are still exempted. This whole "storm cellar" should be closed up as soon as possible, despite the admitted hardships it would impose for a transition period upon local governments.

The treatment of corporate earnings requires radical overhauling. The application of progression to absolute earnings does not make economic sense. If progression is to be applied at all it should be related to the degree to which profits exceed the return required to attract capital and competent leadership. In view of the prevalence

and persistence of monopolistic practices in business, there is much to be said for the addition of a special excess profits tax of the above type on corporations as a permanent part of the Federal revenue system.

Originally (1913) the tax on corporate income was little more than a withholding tax. The normal corporation tax was kept at the same rate as the normal rate of the personal income tax and dividends were exempted from the normal tax. Double taxation was thus avoided. This relationship persisted throughout World War I. The corporation income tax was raised to 12 per cent when the maximum normal rate of the personal income tax was raised to that amount. In 1921 however the relationship was broken. The normal rate of the personal tax was dropped to 5 per cent and then to 4 per cent. The tax on corporate net income, on the contrary, was raised, first to 12½ per cent (1921) and then successively to 13½, 13¾, 18 per cent and finally in 1940 to 24 per cent. In 1935 the principle of progression was introduced, or more accurately the rate structure was made degressive from the maximum, applicable to earnings of less than a specified amount. In 1940 for example the minimum rate was 12½ per cent. The maximum rate of 24 per cent applied to corporations earning more than $25,000. Distributed earnings were liable to the normal and surtax rates of the personal income tax. The corporation tax had been converted into a business tax applicable only to incorporated businesses instead of a simple withholding tax.

This change has had undesirable consequences due to the fact that the surtax rates on top bracket incomes under the personal income tax have always and substantially exceeded the maximum rate of the corporation tax. The higher the progression of the personal income tax the greater became the adverse effect of the new arrangement. Men of wealth found their personal income tax liability reduced, temporarily at least, if their full claims to earnings were not disbursed as dividends. This situation raises the possibility at least that business earnings, which form an important part of the nation's savings, will be invested by management otherwise than the

stockholders would invest them. Undistributed profits provide corporate management with what are virtually interest free funds. It seems reasonable to suppose that some corporate expansions of the 1920's and some investments by corporations in the securities of other corporations would not have occurred had management been obliged to seek funds in the open market.

The successive increases in the normal rate of the corporation tax, and the decreases of the maximum rate of the surtax on personal incomes during the 1920's, narrowed but never eliminated the advantage to wealthy investors of allowing their investments to accumulate within corporations. The sharp increase in the rate of progression of the personal income tax under the New Deal [6] again increased the advantage. Persons of moderate means are correspondingly disadvantaged. They must pay a tax which is usually a multiple of what they would have to pay if the corporation were regarded as simply a device for catching taxable income at the source. New ventures under new leadership are also at a disadvantage over new ventures covered into going concerns and financed out of undistributed profits. This last mentioned effect favors the perpetuation of the present undesirable geographical and ownership concentration of industry.

There are other objections to the present arrangement. While it tempers the rigor of the personal income tax for the wealthy, as long as earnings are *not* distributed, it treats these earnings with increased severity, once they are distributed.[7]

The case against the method of taxing personal and corporate income, as it stood just before the present war, may be summarized as follows: High personal exemptions rendered the personal income tax a class measure. The exemption of public securities provided a storm cellar for wealthy investors at the expense of the small saver for whom public securities should offer a desirable investment

6. In 1934 the maximum surtax rate was raised from 20 to 75 per cent.

7. The discrimination is very much greater in the case of the investor of moderate means. For example an investor liable to, say, a 6 per cent maximum personal income tax rate (1940) found his liability on income derived from stock increased to over 24 per cent.

outlet. The inclusion of capital gains and their taxation in the year of realization was neither productive of revenue nor consistent with the principle of progression. The burden depended not on the rate of gain but on the total income of the recipient in the year of realization. It was thus heavier than if the gain had been taxed as it accrued. Hence it was especially burdensome on risky new ventures, which normally do not begin to pay off until the lapse of several years. The inclusion of the dividents of taxed corporations in personal incomes involved flagrant double taxation, which became very burdensome on the wealthy when the normal rate of the corporation tax was high and the personal income tax was sharply progressive. It grossly overtaxes the small investor. The exclusion of undistributed corporation profits left the small investor overburdened, created an unjustifiable differentiation between incorporated and unincorporated business, provided temporary and socially undesirable protection of the large investor against the high rates of the personal income tax, warped the investment pattern in favor of existing corporate enterprises, and eventually increased business risks.

As long as this method of taxing net income persists the argument of the advocates of deficit financing must be regarded as unproved. In the following paragraphs we venture to suggest a method that is more consistent with the requirements of a free private enterprise system.

Regardless of one's views regarding the propriety of progression for the fiscal system as a whole, it is obvious that the income tax must be progressive as an offset to the inevitable regressiveness of other taxes. This fact does not justify the conversion of the corporation tax into an instrument for the double taxation of certain types of income particularly when this treatment operates as a barrier against the smooth flow of savings to all parts of the economic system. The corporation tax should again be reduced to a withholding tax.[8]

8. In the proposals which follow it is assumed that the states concede to the Federal Government the exclusive right to tax individuals and corporations on their net incomes

To accomplish this result it is necessary to reestablish and maintain parity between the maximum rates applicable to personal incomes and the normal rate on corporate earnings, and to credit corporate investors for taxes paid on their behalf by corporations. If the maximum rate of the personal income tax is 80 per cent the rate on corporations should be 80 per cent. In time of peace the maximum rate should be well below such a figure. Interest on bonds, short term loans and undistributed profits should all be liable to this rate. Capital gains would automatically be taxed as they accrued and realized losses would be deducted when they occurred. Capital gains otherwise realized should be excluded from personal incomes.

To prevent all double taxation full credit should be allowed. There would be no objection, however, in principle, to limiting the credit to some such figure, as 95 per cent. Such an arrangement would be equivalent to the introduction of a low business tax on groups operating under corporate charters. It might be regarded as a fee to cover the special expenses involved in regulation of corporate enterprise. The excess profits tax as it existed just before the war should be repealed. If a special tax on excess earnings over and above some normal is deemed desirable, it should apply to incorporated and unincorporated business alike. On the whole it would be better, because of the effect on risk-taking to reserve excess profits taxation for war emergencies, using the tax on estates to recoup such excessive gains, and regulation to reduce the opportunity of making them.

The officers of corporations should be prohibited from agreeing to assume the tax for any category of investors. They should be

and the estates of decedents on their net worth. The states would have to receive adequate compensation and pretty binding assurance to relinquish these income sources. Any agreement reached might have to be written into the Federal Constitution. Conceivably the agreement might provide a guarantee that the Federal government would turn over not less than a stated proportion of the yield of these three taxes as an unconditional tax-sharing grant and that in addition the Federal government would undertake to finance, through special grants-in-aid, state and local services affected with a national interest. Allocation formulas would have to be worked out for both the general grant and the special grants. The problem of the formula for special grants was treated in the preceding chapter. Presumably the formula for the general grant should be neutral as defined on page 217 above.

required to certify, in duplicate, to each holder of a beneficial interest, the amount by which his claim on earnings of the past year had been reduced as a result of the Federal withholding tax. Under such an arrangement a stockholder would be informed, for example, that his claim on net earnings of the past accounting year from Corporation A amounted to $100, that $50 had been paid to the United States Treasury, that $20 had been placed to reserves and that the enclosed dividend check for $30 represented the balance. The stockholder, in figuring his taxable net income would credit himself with $100 from his investment in the corporation. After calculating his net tax liability he would deduct the $50 paid for him by the corporation and remit the balance. In many cases individual taxpayers would find that total taxes paid at the source in their behalf exceeded their total personal income tax liability. They would be entitled to a refund with interest. Pending refund, a taxpayer in need of cash could borrow from his bank with his note and supporting corporate tax vouchers as collateral.

Such an arrangement has a number of advantages. For corporations, as entities, there would be but a single federal tax liability to be calculated at a flat rate fluctuating with the maximum rate of the personal income tax. Another advantage would arise from the fact that the tax on a substantial fraction of personal incomes would be levied and collected in the year of accrual. In a bad year a taxpayer would not have to pay out of lean income on the larger earnings of a preceding year. If, in addition, Beardsley Ruml's proposal were adopted, the vast bulk of personal income taxes would be paid in the year in which they were earned. In any event a system of taxing current income as received is likely to be worked out before the war ends. Such a change will ease the strains of the post-war transition period, when many personal incomes will be reduced. Even more important it will make it possible to adjust the personal income tax rates to the phases of the business cycle with a view to mitigating business fluctuations.

Corporate earnings and the earnings of unincorporated businesses would henceforth be subjected to the same treatment, except

to the extent that the Federal credit fell short of the 100 per cent level. The troublesome problem of undistributed profits would disappear. Large and small investors would be on an equal footing as supporters of corporate enterprise. With a substantial portion of personal incomes collected at the source, the administration of the personal income tax would be at once simplified and strengthened. With the low personal exemptions recommended earlier, the tax would cease to be a narrow class tax. Its productivity could be made very substantial. This would permit the abolition of a large number of vexatious and costly indirect taxes. The public would become more tax conscious, aware of the fact that the demand for new services would involve an increase in the income tax.

Reorganization of State and Local Taxation

The above proposals would require changes at the state and local level. It is assumed that the general tax-sharing and the special grant-in-aid programs would return to the states approximately what they now derive from death duties and taxes on persons and corporations. The whole plan would be defeated, of course, if the states procceded by indirection, through their general property taxes, and derivatives therefrom, such as gross income taxes, etc., to reach the earning power of corporations. The general property tax would have to be reformed. With a fairly heavy and broadly based income tax and with a substantial revenue from Federal grants, there would no longer be any excuse for including intangibles in the general property tax base. This tax should become legally what it is in effect, a flat tax on a limited number of classes of tangible property. Land should be separately classified and valued according to the principles outlined in Chapter VI. Ideally the administration should be transferred to the state governments and carried out in close collaboration with the State Planning Commissions.

If the Federal Government retained a small portion of the corporation tax as a special business tax, it would be desirable for the states to levy a roughly equivalent tax on unincorporated businesses.

The tax might be levied on net income independently determined on the basis of data supplied by the Federal Government. Since the states would no longer be administering taxes based on income it would probably be preferable to impose this tax as a license tax based on external indications. The states would retain the right to impose sales taxes. A liberal tax-sharing and grant-in-aid program would, however, reduce their dependency on regressive measures of this sort.

The counties, and municipalities and other local subdivisions would admittedly lose their principal present independent source of revenue with the transfer of the general property tax to the states. The loss could be partially made up by a more intensive exploitation of service charges and fees. Municipalities, for example, could secure some revenues from publicly operated utilities and from recreational facilities in municipal parks and recreational centers. The city of the future could profitably limit free parking on its downtown streets and secure a considerable revenue from municipal parking spaces. Privilege taxes for outdoor advertising are another example of an appropriate local revenue source. Highly urbanized counties would have similar opportunities. Rural counties blessed with natural scenic advantages might derive revenues from county parks. A variety of small charges on admissions to pools, tennis courts, golf links, over-night lodges, etc., are not undemocratic. The refusal to charge for services of this sort usually results in no services or very inadequate services. Rural farming counties might own and operate on a reasonable charge basis expensive agricultural machinery essential to effective farming but uneconomical for small operators.

For the bulk of their revenues, however, local governments would be dependent upon Federal and state funds. Such dependency does not necessarily weaken local democratic institutions. The main responsibility for the execution of local functions would still rest on the local units of government. Grants-in-aid would enable them to discharge these functions better than at present. Nothing is so damaging to local autonomy as the bungling assessment and

collection of taxes unsuited to local administration. The drift of local functions to the state capitals and to Washington is probably due more to fiscal incapacities than to any desire for aggrandizement on the part of the higher units of government.

Concluding remarks

In the preceding pages a large action program has been outlined. Its objectives are to increase per capita output by public interventions designed a) to conserve and build up the nation's natural resources b) to improve the health and occupational versatility of the nation's human resources and c) to assist in population movements that will bring surplus population into places where they can use their skills to better advantage. These objectives are intimately interconnected. In areas of surplus and rapidly increasing populations, conservation practices cannot be developed until the pressure of the people on the land is reduced. It has been argued that the forces of destruction are operating so drastically that governmental assistance is essential. Is government prepared to undertake the task? Are the functions that have been suggested capable of execution by a democratic people?

The United States is still a very young country judged by old world standards. The marks of the frontier are deeply engraved on the American character and American institutions; exuberant confidence, sturdy independence, a genuine love of democracy, a belief in the dignity of man and of hard honest work. Equal opportunity for all is part of the democratic tradition. These are characteristics that we rightly cherish. The heritage has not all been good, however. The frontiersman was necessarily a waster of natural resources. Men were scarce at the fringes of settlement, resources appeared to be inexhaustible. So man slaughtered the resources in happy disregard of the needs of coming generations. Government was simple on the frontier. So the frontiersman assumed that one man could perform the duties of office as well as another; that frequent rotation in office made for that equality of opportunity that the frontier so rightly prized. Communications on the

frontier were slow and difficult. So the local administrative units set up by the frontiersmen were excessively small, judged by modern standards.

The good and the bad in this heritage cling to us with equal persistence. Nowhere do its weaknesses obstruct progress more effectively than in the field of local government. Here we maintain outworn units of administration and traditions of rotation in office that make it quite impossible for local administrators to cope with the complex problems of the modern world. Rugged individualism has outlived its usefulness. Social controls must be introduced if the regime of private enterprise is not to destroy itself and democratic institutions as well. Yet when we look around for local governmental agencies capable of exercising these controls, capable of stopping the human and material wastes that appall us, what do we find? Another area of waste and inefficiency.

It is at this point that the true magnitude of the task confronting the people of the South—and of every other part of the Union—really becomes clear. If governmental interventions are necessary to stop these wastes, then our state and local governments must first be reformed. They must be reorganized and staffed on the basis of merit. The rotation concept must give way to the career concept. The needless number of small and inefficient administrative units must be reduced.

We have no intention of attempting to blue-print needed administrative reforms. It is enough to note that if the people can be convinced that governmental interventions are needed to save the land and themselves as well, they will be prepared to tackle this problem of governmental reorganization. Easily realized economies in this area would make less burdensome the task of financing the expanded functions recommended earlier. Public opinion, however, cannot be rallied to abstract ideas. Model plans and balance sheets of increased efficiency and economy are needed, state by state and for the nation as a whole. State Planning Commissions should regard research and education in this field as one of their major continuing activities. A strengthened and independent Na-

tional Resources Planning Board should be similarly active at the national level. Private research institutes and individuals of good will are equally needed.

The Federal Government can promote effective administration at the state and local level through its aid programs. The Federal controls, as far as general tax-sharing and special revenue-sharing and stimulation-grants are concerned, should be limited to matters of simple honesty in the accounting for Federal funds. The state governments may very properly impose more specific standards for their own political subdivisions. With respect, however, to its equalization grants, the Federal Government should require acceptance of stiffer standards. Nothing could so quickly discredit equalization as supported evidence that the grants were making it possible for the poorer states to perpetuate wasteful and inefficient administrative practices long since given up by the wealthier states. Even the most stalwart of state's righters can hardly deny the propriety of Federal standards in this connection. A people unwilling to substitute administration for politics in the public services could continue along traditional lines by foregoing their claims to these gratuitous aids. It may be doubted whether their local spoilsmen could hold them loyal to the old shibboleths in the face of the strengthened opposition of their own forward looking elements and the standing temptation to get something for nothing. It would doubtless be wise to start with a moderate set of standards and to draw heavily on the recommendations of the State Planning Commissions. From time to time standards could be raised until even such recalcitrant issues as county consolidation and equitable segregation could be attacked.

Unless public administration at every level can be made more efficient than at present it is obvious that the tasks we have assigned to the Liberal State surpass its competence. In that event it would appear to be an open question whether a more callous do-nothing policy in the face of mass suffering would not be preferable to costly interventions which leave society poorer and less adaptable. Unfortunately a do-nothing policy is out of the question. For better

or worse, government is going to intervene. The future of democratic institutions may well depend upon the capacity of democratic peoples to formulate a new and constructive concensus and to devise and administer the instrumentalities of its realization. We can only express the hope that this analysis of regionalism may contribute something to the formulation, and that this war will quicken the pace of social and political invention so that men in every region may enter into the era of abundance and good will which modern technology has at long last put within their grasp.

Index

Adjustment, 31-2, 43-4, 105, 113, 144-6, 152, 160, 165, 209, 227
  and public works, 156 ff., 204, 229-30
  See also Migration
Advisory Economic Commission, 184, 226
Agrarianism, ch. iv, *passim*
  Davidson on, 80
  Ligutti and Rawe on, 79, 83-6, 91-2
  Owsley on, 80-3
  Roepke on, 86
  Wright on, 91
Agrarians, Southern, 79-83, 84, 89, 90-91
Agricultural Adjustment Administration, 145, 150 ff., 161, 163
American heritage, 247-8
Angell, J. W., 16
Ascher, C. S., 74
Autarchy, 18

Bankhead-Jones Farm Tenant Act, 137, 142, 159
Beveridge, Sir William, 37, 165-6
Blackstone, 22, 23
Boles, W. E., Jr., 183, 189
Bosanquet, B., 116
Brandt, Karl, 141
Brown, Earl, 65, 68, 74
Brown, I. C., 66
Buck, Pearl, 65
Bullock, C. J., 120
Burgess, J. S., 68
Business cycle, 6, 15, 29-32, 154, 186-7, 202, 214 ff., 232
  See also Fiscal policy
Buzzell, B., 93

Capital, 3
Capitalism, 175, 206
  laissez-faire, 3-7
  Marxian indictment of, 7-11
  liberal, 207, 233
  See also Liberal planning
Chamberlain, John, 37
Chambers, C. R., 121, 124
Chase, Stuart, 165
Clark-McNary Law, 225
Collective bargaining, *see* Labor Union
Communism, 10
Competition, 25
Conservation, 31, 90, 92, ch. v, *passim*, 132, 163, 174
Cotton, 150, 159, 161, 170
County Agent, 159, 162
County consolidation, 157, 248

Davidson, Donald, 80
Decentralization, 63, 84, 97 ff., 175, 195-203, 204-6
Deficit-financing, 29, 234
  See also Business cycle; Fiscal policy
Democratic process, 10
Department of Agriculture, 113, 114
Dickinson, H. D., 12

Eastman, Max, 9, 13
Eberling, E. J., 156
Education, Advisory Committee on, 213
Elliott, W. Y., 82
Employment, full, 30-2, 144, 164, 214-6, 218 ff.
  seasonal, 149
  under-, 97
  and the Fair Labor Standards Act, 184-5, 187
Englund, E., 119, 120
Equalization constructive 207, 229
Erosion, *see* Soil erosion
Expenditures public, *see* Business cycle; Fiscal policy
Ezekiel, M., 97

Fair Labor Standards Act, 168, 181-91
Farm abandonment, 108, 117, 136
  tenant, 162

Farming, part-time, 85-6, 93-5
Farm Security Administration, 131, 138, 143, 145, 154, 159, 163, 164
Fascism, 10
Federal Aid, 149, 157, 204-28
Federal-state revenue system, reform of, 235 ff.
Federal Works Agency, 216
Ferrero, G., 34
Fertility rates, net, 58
Fiscal policy, 29, 210-11, 218 ff., 234-5
Fiscal system and progression, 236
Forest, *see* Land
Fosdick, R. B., 77
Freedom, 77
  and private enterprise, 78
    See also Capitalism
Freight rates, 42, 168, 172-81, 194
Functions, transfer of, 209 ff., 217, 246

General property tax, 121 ff.
  and income tax compared, 126
  incidence of, 123
  assessment of land under, 120, 135, 199
Goals, 8, 10, 19, 32, ch. iv, *passim*
  and the economist, 76-78
    See also Planning
Goodrich, Carter, 79, 86-88, 89, 94, 95-6, 97, 159, 171, 172, 181
Graham, F. D., 97
Grant-in-aid, *see* Federal Aid
Great Britain
  and industrialization of Germany, 41-2
  abandoned free trade, 42
Green, T. F., Jr., 176

Haberler, G., 16, 30
Haig, R. M., 198
Hansen, A. H., 29
Hicks, J. R., 186
Hoarding, 29
    See also Business cycle

Income
  per capita by regions, 62
  by color in South, 67
Independent Advisory Commission, 184, 226
Individualism, 106
Industrial concentration, 88
Industrialization, 41-42, 97-8
Inequality, 6, 7, 13, 26-7, 66-8, 69, 149, 229
  and inheritance, 7, 26, 69, 237
Insurance, health, 153-4, 238
  accident, 153-4
  unemployment, 154 ff.
  social, 187
Interest, 3
Interstate Commerce Commission, 178, 180, 181
Investment
  and saving, 32
  over-, 15, 29

Key, V. O., Jr., 213
Keynes, J. M., 29
Kline, H. B., 175, 177, 179, 181
Knowledge, 21

Labor union
  function of, 24, 37, 194
  and monopoly, 25, 35-7, 95-6, 164-5, 167, 234
  and the closed shop, 36-7
  and collective bargaining, 169, 191-5
  and social security, 184-5
Laissez-faire, x, xi, 3-7, 20, 114
  assumptions of, 20-3
  Marxian indictment of, 7-11
Land
  classification, 107 ff.
    in New York, 107 ff.
    in Austria, 127 ff.
    by TVA, 111 ff.
  forest, 108, 111, 122, 128, 159, 162
    taxation of, 160
  mineral, 122
  public purchase of, 109, 114 ff., 132, 137
  recreation, 112
  taxation of, *see* General property tax
  urban, 123
  utilization, 107
    general property tax and, 119 ff.
  valuation, 121 ff., 135

Lange, Oskar, 12
Leaching, 49
Leighton, G. R., 65, 68, 74
Leland, S. E., 218
Lewis, A. B., 108, 110
Liberalism, *see* Planning, liberal; Capitalism
Lippman, Walter, 2, 20, 100
Lord, Robert, 48

Malinowski, B., 72-3
Maloney, J. F., 182, 190, 191
Malthus, T., 6
Manufacturers Record, 79, 91
Maris, P. V., 138, 142
Marx, Karl, 8, 86
Marxism, 7-11
Matherley, W. J., 63
Meyers, A. L., 94
Migration
  industrial, 40-1
  Negro-white differentials, 54-5, 59
  population, 54 ff., 146
    See also Mobility; Monopoly
Mineral production, 46
Mises, L. von, 12
Mississippi State Planning Commission, 50, 135, 160
Mitchell, W. C., 2
Mobility, 21, 69, 146, 152, 168, 189, 197
  and security, 148 ff., 229-30
Monopoly, 24, 69, 167, 190, 234
  and social security, 164-5
Mount Weather Agreement, 113
Multiple purpose enterprises, 28
Myrdal, G., 6

Nashville agrarians, *see* Agrarians, Southern
National-industrial school, 79, 86-8, 95-6
National Socialism, 10
Nationalism, 40, 167
National Recovery Administration (NIRA), 17
National Resources Board, *see* National Resources Planning Board
National Resources Committee, *see* National Resources Planning Board
National Resources Planning Board, 14, 44, 47, 48, 50, 55, 56, 60, 61, 62, 74, 87-8, 89, 97, 98, 107, 111, 113, 114, 130, 147, 216, 218, 227, 248-9
Negro, 38, 39, 54-5, 170
  equitable segregation, 64-75
  status in the South, 66-8
New Deal and Conservation, 106
Nixon, H. C., xii, 161

Occupational retraining, 157
Odum, H. W., 38, 54, 139
Oliver, E. R., 177, 178, 179
Oversaving thesis, 30
Owsley, F. L., xii, 19, 80-3

Park, Robert E., 71
Patents
  and monopoly, 24, 95
Patriotism, 18
Planning, 1
  city, 26, 63, 202
  Commissions, state, 114, 120, 143, 163, 245, 248, 249
  defined, 22-3
  democratic, xi
  land use, ch. v, *passim*
  liberal, xi, 20-32, 69, 100, 168, 175, 228, 249, 250
    principles, 146, 189, 198, 229-30
  mercantilistic, 1-3
  need for, 1, 248-50
  regional, 43-5
  total, 11-20, 168, 233
    and regimentation, 12-14
    and war, 17-20, 33-5
    and waste, 14-17
Police power, 26, 115, 199, 201, 202
Pomfret, J. E., 133
Population
  changing age—distribution, 63-4
  farm, productivity of by regions, 47
  growth, 39, 52 ff.
    farm, 56
    net reproduction rate of, 58
    occupational differences in, 57

racial differences in, 59, 61
regional differences in, 56, 60, 61
urban, 57
Post-war prospects, 32-5, 250
Pressure groups, 28
Price, 4
flexibility, importance of, 96-7
system, function of, 5, 10, 165-6
defects of, 27-8
Production, factors of, 4
Profits, 4, 189-90
Property, Marxian indictment of, 7-11
private, 7, 22, 134, 139-40
Public employment offices
function of, 23-4, 158
Public ownership, 28
Public Works, 150, 156 ff.
an expanded concept of, 160-5
and regionalism, 32
function of, 24, 27-9, 31
Pure Food and Drug Act, 23

Race, 38, 39, 54
amalgamation, 72
discrimination, 65
economic consequences of, 68-71
Region, 38
Southern, *see* The South
Regional government, 82
differentials, 189
equalization, 204 ff., equity of, 207-8, in Federal grants, 212 ff.
Regional-industrial school, 79, 89-90
Regionalism, 38-45, 167
and nationalism, 40, 167
assumptions underlying, 43
Rent, 3, 134-5, 139, 197-8
Responsibility, 21-2, 25-7, 51, 105, 187
Revenue-sharing, 216
Rignano, E., 237
Rist, C., 235
Robbins, L., 12
Roepke, W., 16, 25
Roosevelt, President, ix, 65
Ruml, B., 244
Rural Adjustment Administration, 163

Salisbury, James, Jr., 124
Salter, L. A., 124
Schumper, J. A., 12
Securities and Exchange Commission Act, 23
Segregation, 65
equitable, 71-5
Sims, Cecil, 182
Single tax, 126
Smith, Adam, 5, 22, 23
Social security, 144 ff., 182, 218
and the old, 152-3, 209
and the physically handicapped, 154, 209
and the young, 153, 209
financing of, 236
in areas of declining opportunity, 148 ff.
in areas of expanding opportunity, 158, 164
Socialism, 10
Soil, 46 ff.
erosion, 47, 95, 142, 148, 171
leaching, 49
Soil Conservation Service, 163
South
and the Civil War, 39, 170
and federal fiscal policy, 204 ff.
and the persistence of the agrarian pattern, 170-1.
and social security, vii
and the tariff, 169-172
economic conditions of, Report on, ix
goals for, 76 ff.
industrialization of, 41-2, 97 ff.
natural resources of, 45-7
population trends, 53-75
soils of, 46-50
Spending, *see* Business cycle
Spengler, J. J., 98, 102
Stalin, Joseph, 34
Stine, C. M. A., 230
Stone, Justice, 183
Streit, C., 91
Subsidy, 28, 42, 89, 118, 148-9, 174
and cotton, 150
housing, 169, 200-3
Supreme Court, 183, 184, 227-8

Tariff, 82, 83, 95, 168, 169-72
and monopoly, 24

Taussig, F. W., 172
Tax
  corporation, 206, 239 ff.
  exemptions, 42, 239, 241
  general property, 119 ff., 199, 245
  income, 206, 237-9
  inheritance, 206, 237-8
  in war-time, 185-6
  on capital gains, 239, 243
  on excess profits, 190, 240, 243
  sharing, 210, 216, 249
  state and local, 245 ff.
Taylor, F. M., 11 ff.
Tenancy, 26, 123-4, 132-143
  in Great Britain, 142
Tenant contract, 141
  rehabilitation, 163, 164
Thompson, W. S., 50
Trade Union, *see* Labor Union
Trotsky, L., 9
Turner, F. J., ix
TVA, 28, 111 ff., 175, 177, 178, 180

U. S. Forest Service, 214
U. S. Health Service, 218
U. S. Housing Authority, 195-203
Urbanization, 63, 83, 102-3, 195-203

Value, 4
Van Sickle, J. V., 29, 121, 127, 148, 195
Vance, Rupert, 148

Wage-differentials, inter-city, 189-192
  regional, 42, 44, 189, 191-3
Wage, dismissal, 155
  over-time, 184-5
  prevailing, 151, 157
Wages, 3
  and cost-of-living, 183, 189
  fair, 192
  minimum, 187-90
Wagner Health Bill, 213
Wallace-Delano Agreement, 114
War, 184-6, 190, 193
  costs of, 230-1
  economic aftermath of, 230 ff.
Washington, Booker, 68
Whelpton, P. K., 56
Whitaker, J. R., xii
"White Supremacy," 39, 65, 72
Willkie, Wendell, 65
Wisconsin, 117
WPA, 150 ff.
Wright, Quincy, 91

Zoning, city, 26
  rural, 26, 114 ff., 156
    See also Police power